Jayatma Industries Limited
(Erstwhile Santaram Spinners Limited)

November 15, 2019

Ratings

Facilities / Instruments	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	15.00	**CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)**	**Issuer not cooperating; Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable); based on best available information**
Long Term/ Short Term Bank Facilities	14.50	**CARE B+; Stable/ CARE A4; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable/ A Four; ISSUER NOT COOPERATING*)**	**Issuer not cooperating; Revised from CARE BB-; Stable/ CARE A4 (Double B Minus/ A Four); based on best available information**
Total	**29.50 (Rupees Twenty Nine Crore and Fifty Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has been seeking information from Jayatma Industries Limited (JIL) to monitor the rating(s) vide e-mail communications/letters dated May 14, 2019, June 11, 2019, June 18, 2019, June 20, 2019, June 26, 2019, July 15, 2019, July 17, 2019, July 22, 2019, August 26, 2019, September 23, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, JIL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The ratings on JIL's bank facilities will now be denoted as **CARE B+/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in the ratings assigned to the bank facilities of JIL takes into account significant fall in its profitability during Q2FY20 over Q2FY19, mainly due to sharp increase in interest and finance cost, despite de-growth in scale of operation. The revision in ratings also factors in 32% and 21% de-growth in total operating income during Q2FY20 on a Q-o-Q and Y-o-Y basis respectively, majorly due to sluggish domestic and export demand for cotton and cotton yarn. The ratings, further, continue to remain constrained due to its thin profitability in light of limited value addition in the cotton ginning business, working capital intensive operations, susceptibility of its operating margin to volatile cotton prices and its presence in highly fragmented cotton ginning industry coupled with impact of changes in government policy on cotton. The ratings also remain constrained due to its poor liquidity on the back of low cash accruals and high reliance on external borrowings.

The ratings, however, favorably take into consideration the vast experience of the promoters in the cotton ginning business, JIL's strategic location within the cotton producing region of Gujarat and its association with reputed clientele.

Detailed description of the key rating drivers

At the time of last rating on February 16, 2019 the following were the rating strengths and weaknesses (updated for the information available from Stock exchange)

Key Rating Weaknesses

De-growth in total operating income and sharp fall in profitability during Q2FY20: Total operating income of JIL decline by 21% and 32% on Y-o-Y basis and Q-o-Q basis respectively majorly due to sluggish export and domestic demand for cotton and cotton yarn. Historically, the scale of operation of JIL remained modest and volatile. Further, during Q2FY20, the net profit declined sharply by 77% on Y-o-Y basis due to significant increase in interest and finance cost. Increase in interest and finance cost is in contrast to decline in scale of operation.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
**Issuer did not cooperate; Based on best available information*

Thin Profitability margin: The profitability margin continued to remain thin primarily on account of JIL's presence in the lowest segment of the cotton textile value-chain with limited value addition. During FY19 and H1FY20, the PBILDT margin remained thin at 1.86% and 1.91% respectively. Further, the PAT margin too continued to remain very thin 0.33% and 0.15% during FY19 and H1FY20 respectively. This kind of very low profitability margins results very low cash accruals and restricts liquidity.

Susceptibility of operating margins to volatile cotton prices: Raw cotton is the key raw material for ginning and pressing activities. Prices of raw cotton are highly volatile in nature. Cotton ginners usually procure raw materials in large volumes to bargain bulk discount from suppliers hence, the volatility in cotton price along with the high inventory requirements results in high susceptibility of operating margins to cotton price fluctuations.

Working capital intensive operations: Due to seasonal nature of business, JIL is required to keep minimum amount of inventory to serve the demand in non-season period. Apart from this, having low bargaining power with its reputed customers, JIL needs to extend high credit which further enhances the working capital requirement. Despite, relatively stable working capital cycle days during FY19 over FY18, the liquidity indicators continue to remain moderate.
Capital structure of the company continued to remain moderately leveraged marked by overall gearing of 1.71 times as on March 31, 2019 due to high reliance on working capital borrowing to support the operation coupled with relatively low tangible net-worth of the company.

Presence in highly fragmented cotton ginning industry and government regulations: Cotton ginning business involves very limited value addition and is highly dominated by small and medium scale units resulting in highly fragmented nature of the industry. Moreover, the competition in the ginning industry remains stiff restricting the profitability margins. Furthermore, Government policies with regard to minimum support price (MSP) and export-import policy affect cotton prices.

Key Rating Strengths
Vast experience of promoters in the cotton ginning business: Mr. Nirav K Shah, Chief Executive Office & Director has over a decades of experience in the ginning industry, actively manages the routine operations of the company. The other directors of the JIL also have vast experience in the cotton ginning business and co-manage the business activities. The promoters are supported by a team of technically qualified and experienced professionals.

Strategically located manufacturing unit along with long standing relationship with reputed customers: The ginning facilities of JIL are located at Kadi in Mehsana District of Gujarat. Gujarat is one of the largest producers of cotton in India. JIL's presence in the cotton producing region results in benefit derived from a lower logistic expenditure, easy availability and procurement of raw materials at effective prices. Further, JIL has a long standing relationship with some of the reputed clients which includes leading textile companies like Arvind Limited and Vardhaman Textile Limited. However, CARE does not have latest operational details.

Liquidity: Poor
The operation of the company remained working capital intensive due to seasonal nature of the business. Further, cash accrual of the company remained low in the range of Rs.0.60 to Rs.0.80 crore and company relied heavily on external borrowings to support the operation. Moreover, JIL had debtor outstanding for more than 6 months of Rs.2.85 crore as on March 31, 2019 *(~ 25% of tangible net-worth as on March 31, 2019)* which may further impacts the liquidity of the company especially in the light of thin profitability and low cash accruals. However, it is to be noted that the company does not have any long term debt outstanding as on March 31, 2019, hence no scheduled repayment obligation which provide cushion to liquidity to certain extent.

Analytical Approach: Standalone

Applicable Criteria:
Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
JIL was incorporated in September 1983, as a private limited company and subsequently got converted into public limited company in December 1994. JIL is engaged in cotton ginning and pressing with an installed capacity of 300 metric tonne

per day (MTPD) along with the trading of raw cotton, ginned cotton bales, cotton yarn and cotton seeds. JIL has also set up an oil mill with 11 oil expellers having a combined installed capacity of 10 MTPD for manufacturing wash oil (raw oil) and de-oiled cakes (DOC). The manufacturing facilities of the company are located at Kadi, Gujarat. JIL has also installed a wind turbine generator of 0.80 Mega Watt at Jamnagar.

Brief Financials (Rs. crore)	FY18 (Aud.)	FY19 (Aud.)
Total operating income	141.35	151.36
PBILDT	2.44	2.81
PAT	0.22	0.51
Overall gearing ratio (times)	1.62	1.71
PBILDT Interest coverage ratio (times)	1.45	1.51

During H1FY20, as per un-audited results, JIL reported a net profit of Rs.0.12 crore on total operating income of Rs.77.15 crore as against Rs.0.23 crore and Rs.67.85 crore during H1FY19 respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	14.50	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable / CARE A4 on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information

**Issuer did not cooperate; Based on best available information*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (20-Jul-18)	1)CARE B+; Stable (25-Sep-17)	1)CARE B+; Stable (18-Jan-17)
2.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	14.50	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable / CARE A4 on the basis of best available information	-	1)CARE BB-; Stable / CARE A4 (19-Feb-19) 2)CARE BB-; Stable / CARE A4 (20-Jul-18)	1)CARE B+; Stable / CARE A4 (25-Sep-17)	1)CARE B+; Stable / CARE A4 (18-Jan-17)
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	-	1)CARE BB-; Stable (19-Feb-19) 2)CARE BB-; Stable (20-Jul-18)	1)CARE B+; Stable (25-Sep-17)	1)CARE B+; Stable (18-Jan-17)

**Issuer did not cooperate; Based on best available information*

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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