

JAIN AGRO INDUSTRIES

Brickwork Ratings removes from Issuer Not Cooperating category and upgrades the long term rating and reaffirms the short term rating for the Bank Loan Facilities of Rs. 27.15 Crores of Jain Agro industries

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2020)	Present
Fund Based	21.69	27.15	Long Term	BWR B+ Stable (Issuer Not Cooperating[^])	BWR BB Stable (Upgrade)
Non-fund Based	0.50	(0.20)	Short Term	BWR A4 (Issuer Not Cooperating[^])	BWR A4 (Reaffirm)
Total	22.19	27.15	Rupees Twenty Seven Crores & Fifteen Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I&II

[^]Issuer did not cooperate; based on best available information

RATING ACTION

The long & short term ratings for the bank facilities of Jain Agro Industries (JAI or ‘the firm’) have been removed from ‘Issuer Not Cooperating’ category after the receipt of surveillance mandate and the required data and information from the firm. While the long term rating has been upgraded to BWR BB (Stable), the short term rating is reaffirmed at BWR A4. The upgrade in long term ratings is driven by consistent growth with a CAGR of ~32% in JAI’s revenues for the past four years, improvement in its gearing due to continued increase in the capital base and extensive experience of its partners in operating in the rice industry. However, these strengths are partially offset by poor operating and net profit margins, and stretched liquidity of the firm

indicated by a modest debt service coverage ratio of 1.06x & 1.08x in FY19 & FY20 (Prov.) respectively.

OUTLOOK: STABLE

BWR believes that the business risk profile of **Jain Agro Industries** will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of management:** The partners of the firm, Mr. Rattan Lal Jain, Mr. Prithvi Raj Jain and Mr. Sanjeev Jain, have long years of experience in the rice processing business. Their experience and knowledge has helped them in maintaining long term relationships with their clients.
- **Improved financial risk profile:** The gearing (Total debt/TNW ratio) of 3.83x & TOL/TNW ratio of 6.51x have shown improvement in FY19 against high levels of 9.89x & 16.01x, respectively in FY18. However, both these ratios moderated slightly in FY20 (Prov) due to moderate increase in debt. The firm's ISCR stood moderate at 1.34x & 1.35x in FY19 & FY20 (Prov.), respectively.
- **Growth in revenue:** The total operating income of the firm has increased from Rs. 38.72 Cr. in FY16 to Rs. 116 Cr. in FY20 (Prov.) registering a CAGR of ~32%.

Credit Risks:

- **Poor Profitability & volatile margins:** Firm's OPM and NPM continued to remain poor at 4.13% & 0.30% in FY20 (Prov.). Further, the profitability is vulnerable to highly volatile prices of paddy.
- **High working capital intensity:** Working capital requirements in the rice industry is very high. The firm's cash conversion cycle remained high at 101 days in FY20, although it is reducing compared to previous years.
- **Moderation in DSCR:** DSCR of the firm stood low at 1.06x (FY19) & 1.08x in FY20 (Prov.). Currently, the firm's maturing term debt is expected to remain at ~ Rs 1.3 Crores



in FY21 which is tightly matched to the expected net cash accruals in the range of Rs 1.3-1.5 Crs. Also, with an increase in overall debt from Rs 27.02 to Rs 34.83 Crs in past two years, the ISCR is also expected to moderate further, if the margins do not improve.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

The ratings of Jain Agro Industries are arrived at on a standalone basis after independent evaluation of its financial risk profile. For arriving at its ratings, BWR has applied its rating methodology as detailed in the rating criteria detailed below (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Positive: Ratings may be upgraded if the firm's debt coverage ratios improve significantly, say an ISCR of more than 2x & a DSCR greater than 1.5x along with other favorable factors such as growth of >25% in revenues and profitability margins, and improvement in gearing over the present levels.

Negative: Ratings may be downgraded if the firm takes on large external debt without any improvements in the profitability margins, DSCR going less than 1x or there are any liquidity concerns.

LIQUIDITY POSITION: STRETCHED

Stretched liquidity characterised by high utilisation of working capital limits (>90% in peak season), unavailability of liquid investments & low cash balances, high conversion cycle of 112 days and modest debt coverage metrics with a DSCR of ~ 1.08x in FY20 (Prov.) and rising maturing debt in FY21. However, the current ratio of the firm is comfortable at 1.33x in FY20 (Prov.)

PROFILE OF THE FIRM

Jain Agro Industries has been in the business of rice processing since 1996. The unit is situated at Sultanpur Road in Kapurthala, Punjab. The firm had an installed capacity of processing paddy of 30 MT (10 MT parmal, 20 MT lines basmati). The firm mainly operates in the domestic market. Exports constitute around 25% of its total revenues.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Total Operating Income	Rs Crs	115.43	84.15
OPBDIT	Rs Crs	4.52	4.25
PAT	Rs Crs	0.34	0.29
Analysed Capital	Rs Crs	7.06	4.92
Total Debt/Capital (Analysed)	Times	3.83	9.89
Current Ratio	Times	1.37	1.06

Key Covenants of the Instrument/Facility rated: None

Non-cooperation with previous Rating Agency, if any: None

Rating History for the last three years (including withdrawn/suspended ratings)

Facility/ Instrument	Current Rating				Rating History							
	11 June 2020				31 Mar 2020			08 Feb 2019			2018	2017
	Facility	Type	Amount	Rating	Facility	Amount	Rating	Facility	Amount	Rating		
Bank Loan Rating	FB	Long Term	27.15	BWR BB Stable	FB	21.69	BWR B+ Stable (INC*)	FB	21.69	BWR BB Stable	NA	NA
	NFB	Short Term	(0.20)	BWR A4	NFB	0.50	BWR A4 (INC*)	NFB	0.50	BWR A4		

*Issuer did not cooperate; based on best available information

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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Jain Agro Industries

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	PNB	Cash Credit-PC/PSL/Cash advance as sub limits	23.50	-	23.50
2		Term Loans (as on FY20)	3.65	-	3.65
3		Forward Cover-sub limit of CC	-	(0.20)	(0.20)
TOTAL			27.15	(0.20)	27.15

Total Rupees Twenty Seven Crores & Fifteen lakhs only.



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