May 7, 2021 (Revised)

Jayant Agro-Organics Limited: [ICRA]A-(Stable)/A2+ assigned to enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	0.00	12.00	[ICRA]A-(Stable); Assigned
Short-term Fund Based	45.00	282.10	[ICRA]A2+; Outstanding and Assigned
Short-term Non-fund Based	0.00	7.50	[ICRA]A2+; Assigned
Long-term / Short-term Unallocated	5.00	48.40	[ICRA]A-(Stable)/A2+; Outstanding and Assigned
Total	**50.00**	**350.00**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the rating, ICRA has considered the consolidated view of Jayant Agro-Organics Limited (JAOL, parent entity), three of its subsidiaries, viz. Ihsedu Agrochem Private Limited (IAPL), Ihsedu Coreagri Services Private Limited (ICSPL) and Ihsedu Itoh Green Chemicals Private Limited (IIGCMPL), as well as JAOL's share in the joint venture (JV) company, Vithal Castor Polyols Private Limited (VCPPL), on account of substantial operational and financial linkages among them. These entities are collectively referred to here as the Jayant Group or the Group.

The ratings assigned to JAOL takes into account the extensive experience of the promoters of over five decades in the castor oil industry and the Jayant Group's leadership position in the castor oil and castor oil-based derivatives business. The ratings factor in the Group's diversified product portfolio catering to several end-user industries and the strategic tie-ups that the Group has with a few reputed global chemical companies, assuring long-term volume. The ratings also factor in the healthy net worth and comfortable capital structure of the Group at a consolidated level.

The rating is, however, constrained by the exposure of the Group's profitability to volatility in commodity prices. ICRA notes that the Group reported a net operating loss of ~Rs. 80 crore at a consolidated level in Q3 FY2020 mainly attributable to sharp decline in castor prices. However, the commodity prices have stabilised over the past 12 months and the Jayant Group has reported stable profitability of 5-6% at a consolidated level over the said period. The ratings also factor in the counter-party risk as some of its customers failed to honour committed contracts in FY2020, though mitigated to some extent by the cash-against-documents policy and other measures adopted for majority of its customers. The ratings also take into consideration the moderate working capital intensity of the Group due to relatively high raw material inventory and the risks related to competition from substitute products.

The Stable outlook reflects ICRA's expectations that while the consolidated revenue for the Group would be impacted by the adverse impact of the Covid-19 pandemic in FY2021, the same should improve rapidly, mainly supported by its leadership position in the castor oil industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and leadership position in the castor oil and castor oil-based derivatives business - Jayant Group is the leading player for the castor oil and castor oil-based derivative products in the country. Its promoters have over five decades of experience in the castor industry with second and third-generation qualified promoters currently driving the operations of the company.

Diversified product profile - While the castor oil sales for the Group has formed a significant proportion of the overall sales, the contribution of castor derivatives sales has been increasing gradually. The Group has gradually added capacity to manufacture new derivative products and it now has a portfolio of ~80 derivative products used in various end-user industries, such as agriculture, electronics, cosmetics, food, lubricants and plastic, among others.

Strategic tie-ups with reputed global chemical majors - Jayant Group has established relationships with several global chemical majors. Arkema holds 24.9% stake in IAPL, while Itoh Oil Chemicals Co. Ltd. (IOCCL) holds 40% stake in IIGCMPL. JAOL has also entered into a JV with Mitsui Chemicals and IOCCL to invest in VCPPL. Such arrangements ensure uninterrupted supply of castor oil as well as derivatives for these global players and in turn result in assured sales for JAOL at a consolidated level.

Healthy net worth and comfortable capital structure - JAOL's consolidated net worth remained healthy at Rs. 348 crore and capital structure remained comfortable, marked by low gearing of 0.3 time as on September 30, 2020. The overall debt reduced to Rs. 125 crore as on September 30, 2020, against Rs. 445.0 crore as on March 31, 2019 on the back of the recent change in inventory policy towards back-to-back ordering.

Credit challenges

Profitability exposed to volatility in commodity prices - Being a commodity business, any significant adverse fluctuations in the prices of castor seeds / castor oil can directly impact the profitability of the Group, which remains low at around 5-6% in a steady-state, as is typical for the industry. In Q3 FY2020, the prices of castor seeds dropped sharply by ~25% and with the Group's high exposure on the commodity, it reported a net operating loss of ~Rs. 80 crore at a consolidated level. The loss was also partly attributable to certain customers failing to honour their committed contracts following the price drop. However, the Group's changed inventory policy should now ensure that raw material is procured against the order received in a back-to-back manner.

Moderate working capital intensity - The working capital intensity of JAOL at a consolidated level remained moderate in the range of 25-30% over FY2017-FY2019 due to high inventory levels. The inventory levels declined significantly as on March 31, 2020 as the arrival of certain shipments got delayed due to the lockdown. However, the recent change in the Group's inventory policy would ensure lower inventory levels and reduce the working capital intensity to ~20%, going forward.

Competition from substitute products - Although the Group has a diversified product portfolio, some of the castor oil-based derivative products face competition from crude-based derivative products. This exposes the Group to risks related to product substitution.

Liquidity position: Adequate

At a consolidated level, Jayant Group's liquidity position remains **adequate** with annual fund flow from operations of Rs. 26 crore in H1 FY2021 and healthy expected cash accruals of ~Rs. 50 crore in FY2021. Also, at a consolidated level, the Group had a sanctioned working capital facility of Rs. 754 crore as on February 28, 2021, the average utilisation of which remained moderate at around 51% of the drawing power over the past 12 months. The company has applied for funding under the emergency credit line guarantee scheme, the approval of which will further support the liquidity position of the company. The liquidity will be affected to some extent by the moderate scheduled repayments over the medium term as the company draws fresh term loans for the planned capex.

Rating sensitivities

Positive factors – Significant and sustained improvement in the scale of operations and profitability could lead to a rating upgrade.

Negative factors – Negative pressure on the ratings can arise if there is any significant deterioration in the scale of operations and profit margins leading to interest coverage falling below 3.5 times on a sustained basis. Higher than expected debt-funded capex could also result in downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated view of Jayant Agro-Organics Limited with its subsidiaries. As on March 31, 2020, the company had three subsidiaries and a joint venture company that are enlisted in Annexure-2.

About the company

JAOL was set up in 1992 for the manufacturing and marketing of castor oil and castor oil-based derivative products. Following the separation of the Udeshi and Kapadia promoter families in 2002, JAOL was separated from the Jayant Oil Mills Group (set up in 1952), and since then the Udeshi family has taken exclusive control of JAOL.

Ihsedu Agrochem Private Limited (IAPL) was set up by JAOL as a backward integration into seed crushing in 2002. In October 2013, Arkema acquired 24.9% stake in IAPL. Ihsedu Coreagri Services Private Limited (ICSPL) was set up as a wholly owned subsidiary of JAOL to manufacture hybrid seeds. Ihsedu Itoh Green Chemicals Private Limited (IIGCMPL) was incorporated in 2011, with JAOL holding 90% equity stake, which reduced to 60% post purchase by IOCCL. In 2014, JAOL entered into a 50:40:10 JV agreement with Mitsui Chemicals and IOCCL to invest in Vithal Castor Polyols Private Limited (VCPPL).

Key financial indicators (audited)

JAOL Consolidated	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	2,438.5	2,507.6	1,154.7
PAT (Rs. crore)	58.0	-34.9	28.1
OPBDIT/OI (%)	5.7%	-0.4%	5.0%
RoCE (%)	15.1%	-3.0%	NA
Total Outside Liabilities/Tangible Net Worth (times)	1.6	0.8	NA
Total Debt/OPBDIT (times)	3.2	-16.2	NA
Interest Coverage (times)	3.1	-0.3	5.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 7, 2021	Apr 8, 2021	-	-	-
1	Term loan	Long term	12.00	-	[ICRA]A- (Stable)	-	-	-	-
2	Fund based limits	Short term	282.10	-	[ICRA]A2+	[ICRA]A2+	-	-	-
3	Non-fund based limits	Short term	7.50	-	[ICRA]A2+	-	-	-	-
4	Unallocated limits	Long term/ Short term	48.40	-	[ICRA]A- (Stable)/A2+	[ICRA]A- (Stable)/A2+	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Long-term loan	-	-	-	12.00	[ICRA]A-(Stable)
NA	Short-term fund based limits	-	-	-	282.10	[ICRA]A2+
NA	Short-term non-fund based limits	-	-	-	7.50	[ICRA]A2+
NA	Unallocated limits	-	-	-	48.40	[ICRA]A-(Stable)/A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	JAOL Ownership	Consolidation Approach
Jayant Agro-Organics Limited	100.00% (rated entity)	Full Consolidation
Ihsedu Agrochem Private Limited	75.10%	Full Consolidation
Ihsedu Coreagri Services Private Limited	100.00%	Full Consolidation
Ihsedu Itoh Green Chemicals Private Limited	60.00%	Full Consolidation
Vithal Castor Polyols Private Limited	50.00% (joint venture)	Equity Method

Source: *JAOL annual report*

Corrigendum

Rating approach has been updated on Page number 1 and 3, Liquidity position heading changed from Strong to Adequate on Page number 2

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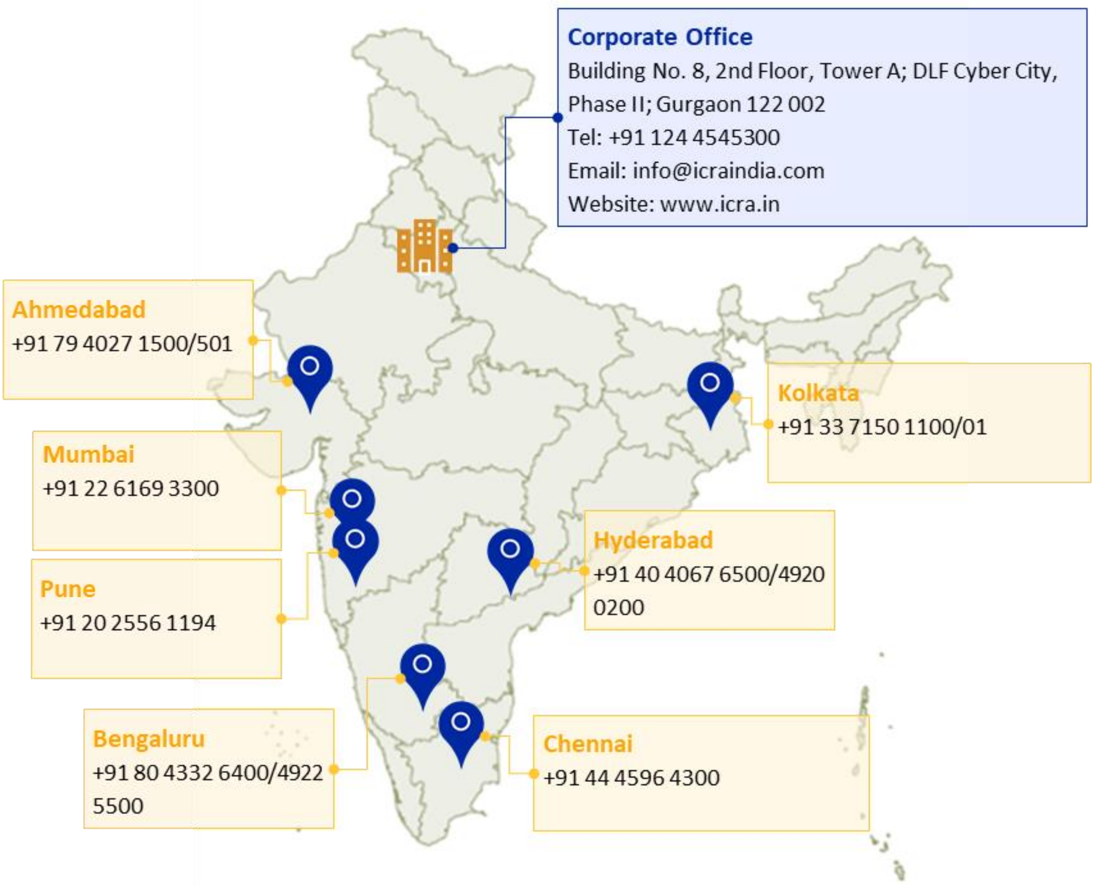

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