September 08, 2022

Jiwarajka Textile Industries: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	15.00	15.00	[ICRA]A-(Stable); reaffirmed
Long-term Fund-based – Cash Credit	35.00	35.00	[ICRA]A-(Stable); reaffirmed
Long-term/ Short -term – Unallocated Limits	22.00	22.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**72.00**	**72.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Jiwarajka Textile Industries (JTI) considers the healthy operational and financial performances of the firm in FY2022, while maintaining a comfortable capital structure and adequate liquidity profile, and ICRA's expectations of steady performance over the medium term. The firm's revenues surged 56% YoY to Rs. 482 crore in FY2022 after three consecutive years of moderation, on the back of recovery in sales volume to its previous high recorded in FY2018 and a substantial improvement in average realisations, in line with an increase in global crude oil prices. ICRA expects the firm's revenue growth to remain flat in FY2023 as the benefits of an increase in sales volume (due to an increase in the installed capacity by ~15% from FY2023) are likely to be moderated by volatility in average realisations. JTI's operating margin is expected to moderate to 7-8% per annum in a steady state over the medium term compared to ~10% in FY2021 and FY2022.

The ratings continue to be supported by JTI's comfortable capital structure and healthy debt protection metrics, aided by low reliance on external debt. Although the firm's gearing increased to 0.7 times as on March 31, 2022, excluding the unsecured loans from partners and their relatives, the gearing remained comfortable at less than 0.5 times. The ratings favourably consider the healthy capacity utilisation levels and higher proportion of value-added texturised yarn in the overall product mix. Further, prudent working capital management by the firm, translating into low working capital intensity of operations also provide comfort to the ratings.

ICRA notes the substantial capital withdrawal of ~Rs. 43 crore from the firm in FY2022, which was partly offset by an increase in unsecured loans from partners worth ~Rs. 10 crore, as on June 30, 2022. Although this is unlikely to materially affect the firm's liquidity profile in the near term, which is supported by healthy cash flow from operations, modest average utilisation of working capital limits and low debt repayment obligations, the erosion of net worth base remains a concern. Any sizeable capital withdrawal by the partners in the future is likely to exert pressure on the firm's ratings and will continue to remain a monitorable.

The ratings, however, continue to be constrained by the firm's moderate scale of operations and vulnerability of its revenue and margins to volatility in prices of key raw materials, which exhibit high correlation with volatile crude oil prices. The ratings also factor in the intense competition in the industry and the commoditised nature of products, which limit the firm's pricing flexibility. The risk of capital withdrawal from the firm, which could adversely impact its liquidity profile and the net worth base, also puts pressure on the ratings.

The Stable outlook on the long-term rating reflects ICRA's expectations that the firm's performance will continue to be supported by its healthy capacity utilisation and a diverse customer base while benefitting from its healthy financial profile and experience of its partners in the industry.

Key rating drivers and their description

Credit strengths

Healthy capacity utilisation, wide product portfolio and a diversified customer base – JTI's capacity utilisation has remained above 95% over the last five years, with the firm recording a production of ~65,000 metric tonnes in FY2022. The utilisation levels are supported by a wide product portfolio of manmade yarn, which enables the firm to serve a large market segment. The product mix of JTI is dominated by value-added texturised yarn and dope-dyed yarn which account for more than 50% of its revenues. The firm's business remains diversified with the top five customers accounting for ~25% of its revenue with a healthy 15-20% revenue coming from export sales.

Comfortable capital structure and healthy debt protection metrics – The firm's debt profile as on March 31, 2022 comprised term loans worth Rs. 14.7 crore, working capital borrowings worth Rs. 5.4 crore and unsecured loans worth Rs. 37.1 crore. JTI's capital structure remains comfortable, marked by low reliance on external borrowings. Although the capital structure and coverage metrics moderated in FY2022 due to an increase in unsecured loans and reduction in the net worth base due to capital withdrawal, they remained healthy. ICRA expects JTI's gearing to remain conservative at less than 0.5 times over the medium term with an interest cover above 8 times and TOL/TNW below 0.5 times, going forward.

Low working capital intensity of operations – JTI's working capital intensity remains low, characterised by net working capital/operating income remaining below 20% over the last five years on account of prudent inventory and receivables management. The firm maintains raw materials inventory of 25-40 days to mitigate the price risk. On the receivables front, domestic customers are extended a credit period of 10-30 days while for export orders, the firm seeks an advance of ~20% on order confirmation and the balance on receipt of goods.

Extensive experience of partners in the textile industry – The firm commenced operations in 1985 as a yarn trading enterprise and subsequently ventured into yarn spinning in 1992 following the acquisition of Saheli Industries. Its partners have a long experience spanning more than three decades in the manmade yarn industry and have established relationships with key customers and suppliers.

Credit challenges

Susceptibility of revenue and profit margins to volatility in prices of raw materials and finished goods – The firm's primary raw material, polyethylene terephthalate (PET) chips, is a crude oil derivative, prices of which are highly correlated with that of crude oil. The prices of polyester yarn are also market driven and loosely correlated with the prices of crude oil. Any adverse movement in the prices of raw materials may lead to a moderation in the firm's gross margins, translating into lower cash accruals.

Commoditise nature of products and fragmented industry structure limit pricing flexibility – The polyester textiles industry in India is characterised by intense competition owing to high level of fragmentation and low entry barriers across the value chain. Further, polyester yarn is a commodity with limited scope for product differentiation and its prices are determined by the market. This limits the pricing flexibility available to the firm.

Risk of capital withdrawal from the partnership firm – The partnership constitution of JTI exposes it to the risk of capital withdrawal by the partners, which could have an adverse impact on its net worth base, capital structure, debt coverage metrics and liquidity profile. The partners withdrew capital worth ~Rs. 33 crore from the firm in FY2022 and Q1 FY2023. Any sizeable capital withdrawal from the firm is likely to exert pressure on the ratings and will continue to remain a monitorable.

Liquidity position: Adequate

JTI's liquidity remains adequate, characterised by free cash and unutilised working capital limits of ~Rs. 32 crore as on March 31, 2022 (with commensurate drawing power). ICRA expects the firm to generate cash flow from operations worth Rs. 20-25 crore per annum over the next 12-24 months. Against this, the firm has modest annual debt repayment obligation of ~Rs. 2

crore and annual maintenance capex requirements of ~Rs. 3-5 crore. ICRA also derives comfort from the healthy liquidity buffer available to the firm owing to low average utilisation of bank limits, which stood at ~10% of the sanctioned limits over the 15-month period ending on June 30, 2022. However, sizeable unsecured loans from partners worth Rs. 10 crore (as on July 31, 2022) with undefined repayment terms and the risk of further capital withdrawals constrain the firm's liquidity profile.

Rating sensitivities

Positive factors – ICRA may upgrade JTI's ratings if the firm registers a robust growth in revenues and earnings while maintaining its profit margins along with comfortable debt protection metrics and healthy liquidity on a sustained basis.

Negative factors – Pressure on JTI's ratings could emerge if a substantial and sustained decline in revenue and/or profitability results in pressure on cash accruals or if a deterioration in the working capital cycle or any sizeable debt-funded capital expenditure leads to weakening of the liquidity profile on a sustained basis. Any sizeable capital withdrawal by the partners could also put pressure on the ratings. Specific credit metrics that may result in ratings downgrade include return on capital employed below 16% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Jiwarajka Textile Industries (JTI), a partnership firm registered on July 17, 1985 and headquartered in Mumbai, is involved in spinning and marketing of manmade yarn, including polyester texturised yarn, partially oriented yarn, fully-drawn yarn and dope-dyed yarn. Its manufacturing facilities are located in Daman and Silvassa, with an installed capacity of ~150 winding machines. The firm is managed by Mr. Sunil Jiwarajka, Mr. Mahendra Jiwarajka, Mr. Surendra Jiwarajka and Mr. Anish Jiwarajka.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating income	309.1	482.5
PAT	16.8	29.6
OPBDIT/OI	10.9%	9.6%
PAT/OI	5.4%	6.1%
Total outside liabilities/Tangible net worth (times)	0.3	1.0
Total debt/OPBDIT (times)	0.1	1.2
Interest coverage (times)	25.8	39.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 08, 2022	Nov 22, 2021	Jan 27, 2021	Mar 05, 2020
1	**Term loans**	Long-term	15.00	14.70	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]BBB+ (Stable)
2	**Cash Credit**	Long-term	35.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	**Unallocated Limits**	Long-term and short-term	22.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loans	Simple
Long-term fund-based – Cash Credit	Simple
Long-term/ Short-term – Unallocated Limits	N.A.

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2022	NA	FY2030	15.00	[ICRA]A-(Stable)
NA	**Cash Credit**	NA	NA	NA	35.00	[ICRA]A-(Stable)
NA	**Unallocated Limit**	NA	NA	NA	22.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Vipin Jindal
+91 124 4545355
vipin.jindal@icraindia.com

Raunak Modi
+91 22 6169 3368
raunak.modi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches