December 29, 2023

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	10.50	[ICRA]A-(Stable); reaffirmed
Long-term Fund-based – Cash Credit	35.00	45.00	[ICRA]A-(Stable); reaffirmed
Short-term non-fund based facilities	-	5.25	[ICRA]A2+; reaffirmed
Long-term/ Short -term – Unallocated Limits	22.00	11.25	[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 satisfactory operational and financial performances of the firm in H1 FY2024, despite industry headwinds from input cost pressure and weak demand. The firm's operating income grew by ~10% YoY to Rs. 531 crore in FY2023, aided by rise in realisations during the year. Its operating profitability, however, moderated by more than 550 bps YoY to 4.0% in FY2023 on account of pressure on the gross margin. While the margin has improved by ~70 bps to 4.7% in H1 FY2024, the firm's overall performance in FY2024 is expected to remain under pressure owing to volatility in crude oil prices and uncertain demand outlook. The firm's return on capital employed (RoCE) moderated in FY2023 primarily due to contraction in its profitability and ICRA does not expect any major improvement in the near term. However, the capital structure and debt protection metrics are expected to remain at comfortable levels in the near-to-medium term on the back of limited reliance on external debt.

The ratings continue to be supported by the firm's track record of healthy capacity utilisation 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 provides comfort to the ratings. The firm's gearing improved to 0.4 times as on September 30, 2023 from 0.7 times as on March 31, 2022 due to infusion of additional capital by the partners in FY2023 and prepayment of a part of the outstanding term loans. JTI's debt coverage indicators are expected to remain adequate with an interest cover of more than 7.0 times and DSCR of more than 3.5 times over the medium term. The ratings also consider the firm's track record of healthy capacity utilisation 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 provide comfort to the ratings.

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 JTI's debt protection metrics will remain adequate over the near-to-medium term, aided by recovery in cash flow from operations and limited debt servicing obligations.

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 production of ~68,000 metric tonnes in FY2023. 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 20-25% of its revenue and exports contributing ~10% to revenue.

Comfortable capital structure and healthy debt protection metrics – The firm's debt profile as on September 30, 2023 comprised term loans worth Rs. 10.6 crore, working capital borrowings worth Rs. 17.9 crore and unsecured loans from promoters and their relatives worth Rs. 15.0 crore. JTI's capital structure remains comfortable with a gearing of 0.3 times and TOL/TNW of 0.4 times in FY2023. ICRA expects JTI's debt coverage indicators to remain adequate with an interest cover of more than 7.0 times and DSCR of ~3.5 times in FY2024. JTI's net worth base also improved in FY2023 due to capital infusion of Rs. 27.2 crore by the partners, which further supported its capital structure.

Low working capital intensity of operations – JTI's working capital intensity remains low, characterised by net working capital/operating income remaining below 25% 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 receives 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 are 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.

Commoditised nature of products and fragmented industry structure limit pricing flexibility – The polyester textiles industry in India is characterised by intense competition owing to the 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.

Liquidity position: Adequate

JTI's liquidity remains adequate, characterised by free cash and unutilised working capital limits of ~Rs. 20 crore as on September 30, 2023 (with commensurate drawing power). ICRA expects the firm to generate cash flow from operations worth Rs. 8-10 crore in FY2024 and Rs. 15-20 crore per annum in FY2025 and FY2026. Against this, the firm has limited annual debt repayment obligation of ~Rs. 2.2 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 ~29% of the sanctioned limits over the 12-month period ending on September 30, 2023. However, sizeable unsecured loans from partners worth Rs. 15 crore with undefined repayment terms and the risk of capital withdrawals constrain the firm's liquidity profile.

Rating sensitivities

Positive factors – ICRA may upgrade JTI's ratings if the firm registers a healthy 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 puts pressure on the cash accruals or if a deterioration in the working capital cycle or any sizeable debt-funded capital expenditure weakens 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 interest cover below 4.0 times 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

	FY2022 (audited)	FY2023 (audited)	H1 FY2024 (unaudited)
Operating income	483	531	262
PAT	30	9	7
OPBDIT/OI	9.6%	4.0%	4.7%
PAT/OI	6.1%	1.8%	2.6%
Total outside liabilities/Tangible net worth (times)	1.0	0.4	0.4
Total debt/OPBDIT (times)	1.2	1.5	1.8
Interest coverage (times)	39.9	7.9	6.7

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 29, 2023	Sep 08, 2022	Nov 22, 2021	Jan 27, 2021
1	**Term loans**	Long-term	10.50	10.59	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	**Cash Credit**	Long-term	45.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)
3	**Bank Guarantee**	Short-term	5.25	-	[ICRA]A2+	-	-	-
4	**Unallocated Limits**	Long-term and short-term	11.25	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [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
Short-term non-fund based facilities	Very 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: [Click Here]

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	10.50	[ICRA]A-(Stable)
NA	**Cash Credit**	NA	NA	NA	45.00	[ICRA]A-(Stable)
NA	**Bank Guarantee**	NA	NA	NA	5.25	[ICRA]A2+
NA	**Unallocated Limit**	NA	NA	NA	11.25	[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

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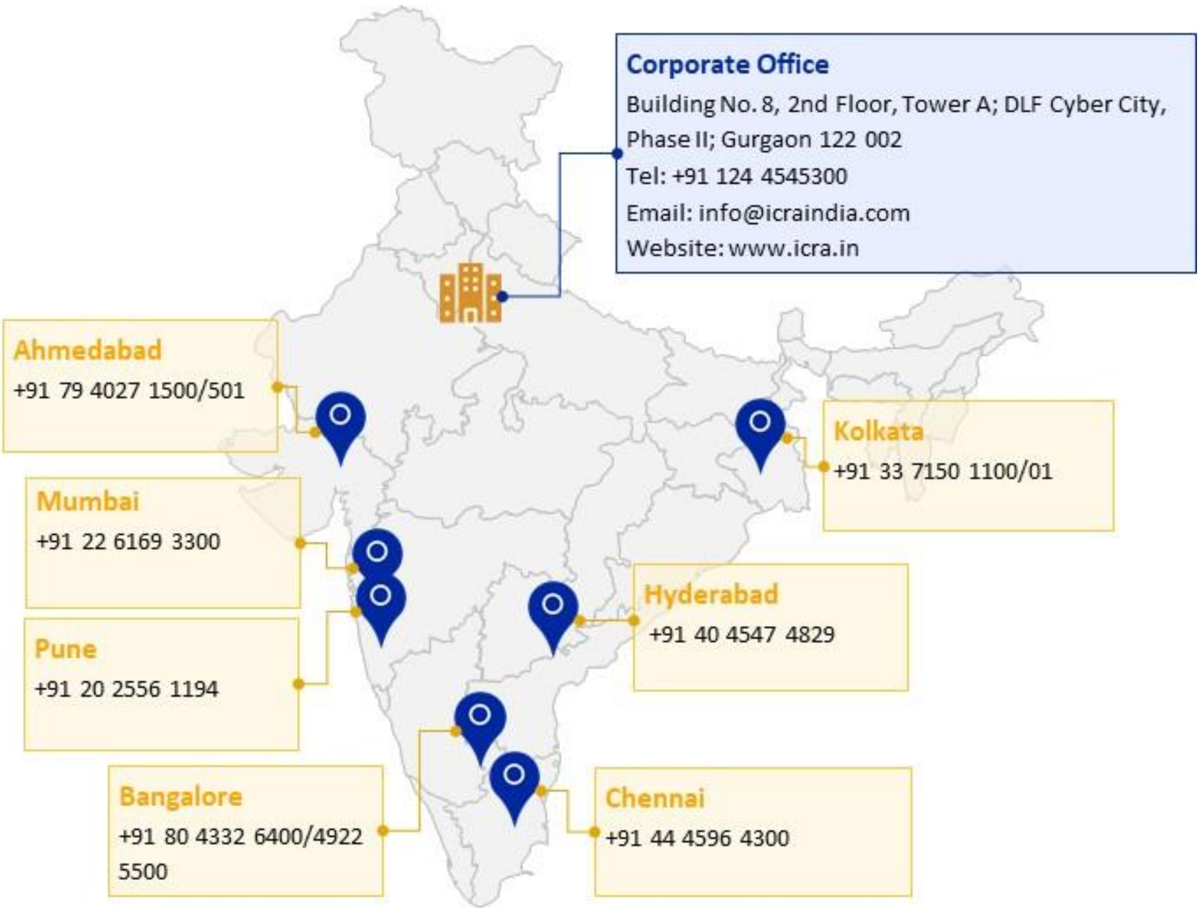

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