

June 19, 2024

Ihsedu Agro Chem Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based Limits	5.00	5.00	[ICRA]A-(Stable); Reaffirmed
Short Term – Fund Based Limits	414.00	414.00	[ICRA]A2+; Reaffirmed
Short Term – Non-Fund Based Limits	13.00	13.00	[ICRA]A2+; Reaffirmed
Total	432.00	432.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Jayant Agro-Organics Limited (JAPL) and three of its Group concerns viz. Ihsedu Agro Chem Private Limited (IAPL), Ihsedu Coreagri Services Private Limited (ICSPL, fellow subsidiary) and Ihsedu Itoh Green Chemicals Private Limited (IIGCMPL, fellow subsidiary), and JAOL's share in the joint venture (JV) company, Vithal Castor Polyols Private Limited (VCPPL), owing to the substantial operational, managerial and financial linkages among them. These entities are collectively referred to as the Jayant Group or the Group.

The ratings factor in the 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 also take into account the Group's diversified product portfolio catering to several end-user industries. The ratings also consider the Group's strategic tie-ups with a few reputed global chemical companies, which provides visibility on the volume offtake.

The ratings factor in the healthy net worth and comfortable capital structure of the Group at a consolidated level. JAOL's consolidated operating profit before interest, taxes, depreciation and amortisation (OPBITDA) remained stable in FY2024 at Rs. 97.3 crore (Rs. 97.2 crore in FY2023). The company's working capital borrowings increased at the end of FY2024, rising to Rs. 142.9 crore from the FY2023-end levels of Rs. 69.1 crore owing to an increase in the working capital intensity. As a result, the TD/OPBITDA increased to 1.6 times at the end of FY2024 from 0.9 times at the end of FY2023. However, as the working capital borrowings had remained low during a major part of the year, the overall interest costs moderated to Rs. 9.5 crore in FY2024 from Rs. 13.3 crore in FY2023, improving the interest coverage ratio to 10.3 times in FY2024 vis-à-vis 7.3 times in FY2023.

The ratings are, however, constrained by the exposure of the Group's profitability to the volatility in commodity prices and forex rates and the moderate profit margins due to the high revenue share of the low-margin castor oil segment. The ratings are also constrained by the Group's moderately high working capital intensity due to the relatively elevated raw material inventory and the competition from substitute products.

The Stable outlook reflects ICRA's opinion that the credit profile of the consolidated entity will remain comfortable in the medium term, supported by its established track record and the expected growth in the share of the higher margin castor derivative segment on the back of the ongoing greenfield capex.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and leadership position in castor oil and castor oil-based derivatives business - The Jayant Group is the leading player in the country's castor oil and castor oil-based derivative products. The Group's promoters have

over five decades of experience in the castor industry with second and third-generation qualified promoters running the company's operations. The Group has established relationships with several major global chemical companies. Arkema holds a 24.9% stake in IAPL, while Itoh Oil Chemicals Co. Ltd. (IOCCL) has a 40% stake in IIGCMPL. JAOL has a JV with Mitsui Chemicals and IOCCL to invest in VCPPL. Such arrangements ensure uninterrupted supply of castor oil and its derivatives for these global players, and in turn result in assured sales for JAOL at a consolidated level.

Diversified product profile - While the Group's castor oil sales have formed a significant proportion of the overall sales, the contribution of castor derivatives has gradually increased. 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, out of which 20-25 products are major revenue drivers.

Healthy net worth and comfortable capital structure - JAOL's consolidated net worth remained healthy at Rs. 543.2 crore and the capital structure was comfortable, marked by a low gearing of 0.27 times as on March 31, 2024. The overall debt was Rs. 153.2 crore as on March 31, 2024, against Rs. 83.8 crore as on March 31, 2023, owing to the higher working capital debt. The coverage indicators were comfortable with interest cover and TD/OPBIDTA at 10.3 times and 1.6 times, respectively, in FY2024 compared to 7.3 times and 0.9 times, respectively, in FY2023. ICRA takes note of the capex programme being implemented to expand the capacity of castor oil derivatives, which is being entirely funded through internal accruals. The capital structure and coverage indicators are expected to remain comfortable.

Credit challenges

Profitability exposed to volatility in commodity prices and forex rates – As the Group is largely engaged in a commoditised business, any significant adverse fluctuation in the prices of castor seeds/castor oil or the volatility in forex rates can impact the Group's profitability. However, the risk is partly mitigated by changes in the inventory holding policy in recent years with the procurement backed by orders and hedging in place for forex volatility. The profit margins also remain moderate due to high revenue share from the low-margin castor oil business.

Moderate working capital intensity – JAOL's working capital intensity, at a consolidated level, had remained moderately high in the range of 25-30% during FY2017-FY2019 due to the elevated inventory levels. However, with changes in the inventory holding policy post FY2020, the working capital intensity has improved but still remains moderately high. The consolidated working capital intensity moderated to 20% in FY2024 compared with 13% FY2023.

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, JAOL's liquidity position remains adequate with annual fund flow from operations of Rs. 64.8 crore in FY2023 and Rs. 70.0 crore in FY2024 along with cash and liquid investments of Rs. 10.7 crore as on March 31, 2024. Also, at a consolidated level, JAOL has a sanctioned fund-based working capital facility of Rs. 754.1 crore as on date, the average utilisation of which remained moderate at around 11% of the drawing power in the 12-month period ended March 2024. The company has modest repayment obligations of Rs. 2.3 crore in FY2025 and Rs. 2.5 crore in FY2026. It is expected to incur the balance capex of around Rs. 15 crore for new derivative products (greenfield project at Jhagadi) in FY2025 which would be funded through internal accruals. Further, the company plans to incur additional Rs. 100 crore over the next four years to add new products, which will be funded mainly through internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a sustained healthy scale of operations and profitability at a consolidated level while maintaining comfortable credit metrics.

Negative factors – Pressure on the ratings could arise if there is any significant deterioration in the scale of operations and profits at a consolidated level on a sustained basis. A higher-than expected debt-funded capex or a stretch in the working capital cycle which weakens the liquidity profile will also affect the ratings. Specific credit metrics for downgrade include the interest cover falling below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Chemicals
Parent/Group support	Not Applicable
Consolidation/ Standalone	For arriving at the ratings, ICRA has considered a consolidated view of Jayant Agro-Organics Limited with its subsidiary IAPL, IICSPL (fellow subsidiary) and IIGCMPL (fellow subsidiary) and a JV company of JAOL, VCPPL. As on March 31, 2024, the company had three subsidiaries and a joint venture company that are enlisted in the Annexure

About the company

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

Ihsedu Agrochem Private Limited (IAPL) was set up by JAOL in 2002 as a backward-integration operation for seed crushing. In October 2013, Arkema acquired a 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 a 90% equity stake, which reduced to 60%, post the 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	FY2023	FY2024
Operating income	2,771.6	2,150.0
PAT	51.3	55.0
OPBDIT/OI	3.5%	4.5%
PAT/OI	1.9%	2.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.5
Total debt/OPBDIT (times)	0.9	1.6
Interest coverage (times)	7.3	10.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: CRISIL Limited, vide its press release dated August 16, 2022, has disclosed that the ratings of Jayant Agro-Organics Limited have been migrated to [CRISIL]BB+(Stable)/A4+ [Issuer not cooperating; rating withdrawn]

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
				Jun 19, 2024	-	Mar 24, 2023	May 10, 2022	May 07, 2021	
1	Fund Based Limits	Long term	5.00	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Stable)
2	Fund Based Limits	Short-Term	414.00	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Non-Fund Based Limits	Short-Term	13.00	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based Limits	Simple
Short Term – Fund Based Limits	Simple
Short Term – Non-Fund Based Limits	Very Simple

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	Long Term – Fund Based Limits	-	-	-	5.00	[ICRA]A-(Stable)
NA	Short Term – Fund Based Limits	-	-	-	414.00	[ICRA]A2+
NA	Short Term – Non-Fund Based Limits	-	-	-	13.00	[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

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: Company

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