

May 10, 2022

Jayant Agro-Organics Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Loan	12.00	12.00	[ICRA]A-(Positive) reaffirmed; outlook revised to Positive from Stable
Short-Term - Fund Based	282.10	282.10	[ICRA]A2+; reaffirmed
Short-Term - Non-Fund Based	7.50	7.50	[ICRA]A2+; reaffirmed
Long-Term/Short-Term – Unallocated	48.40	48.40	[ICRA]A-(Positive)/[ICRA]A2+ reaffirmed; outlook revised to Positive from Stable
Total	350.00	350.00	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Ihsedu Agro chem Private Limited (IAPL) and three of its Group concerns viz. Jayant Agro-Organics Limited (JAOL, parent entity), 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 substantial operational, managerial and financial linkages among them. These entities are collectively referred to as the Jayant Group or the Group.

The revision in outlook to Positive, considers the healthy revenue growth and stable margins witnessed in 9M FY2022, driven by recovery in demand and increase in share of castor derivatives and reflects ICRA's expectation that the consolidated entity will sustain the improved financial performance, while maintaining healthy credit metrics. 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 along with 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 assures long-term volumes. The ratings also factor in the healthy net worth and comfortable capital structure of the Group at a consolidated level.

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

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 presently 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. (IOCC) holds 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 castor oil sales for the Group has formed a significant proportion of the overall sales, the contribution of castor derivatives sales 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. 418.6 crore and capital structure remained comfortable, marked by a low gearing of 0.5 times as on September 30, 2021. The overall debt was Rs. 242.6 crore as on September 30, 2021, against Rs. 162.4 crore as on March 31, 2021, owing to the increase in working capital requirements. ICRA takes note of the company's capex plans, which may be debt funded, however, the capital structure and coverage indicators remain comfortable.

Credit challenges

- **Profitability exposed to volatility in commodity prices and forex rates** - Being a commodity business, any significant adverse fluctuations 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 the recent years with procurement backed by orders and hedging for forex volatility. The profit margins also remain moderate due to high revenue share from the castor oil segment, which is a low-margin business.
- **Moderately high working capital intensity** - The working capital intensity of JAOL at a consolidated level had remained moderately high in the range of 25-30% during FY2017-FY2019 due to high inventory levels. While the working capital intensity moderated in FY2020 due to the Covid-19 pandemic's impact and some changes in the inventory holding policy, it has increased in FY2021 with NWC/OI of 20.5%.
- **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. 73.9 crore in FY2021 and Rs 80.9 crore in 9M FY2022. Also, at a consolidated level, JAOL has a sanctioned working capital facility of Rs. 674.1 crore as on date, the average utilisation of which remained moderate at around 55% of the drawing power over the past 12 months. The company has repayment obligations of Rs. 4.48 crore in FY2023 and Rs. 2.22 crore in FY2024 and plans to incur capex of around Rs 40-45 crore in FY2023 and FY2024 for a greenfield project, which will be funded through a mix of internal accruals and debt. However, repayments will commence only after FY2024.

Rating sensitivities

Positive factors – Sustained healthy scale of operations and margins at a consolidated level, while maintaining healthy credit metrics could lead to a rating upgrade.

Negative factors – Pressure on the ratings could arise if there is any significant deterioration in scale of operations and profit margins on a consolidated level, which leads to interest coverage falling below 4.0 times on a sustained basis. A higher-than-

expected debt-funded capex or stretch in working capital cycle which weakens the liquidity profile 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 subsidiary IAPL, IICSPL (fellow subsidiary) and IIGCMPL (fellow subsidiary) and a JV company of JAOL, VCPPL. As on March 31, 2021, 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 manufacture 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 separation 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 as a backward integration into seed crushing in 2002. 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-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	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	2,507.6	1,638.9	1,996.1
PAT (Rs. crore)	-34.9	52.3	67.0
OPBDIT/OI (%)	-0.4%	5.9%	5.7%
RoCE (%)	-3.0%	15.8%	NA
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.7	NA
Total Debt/OPBDIT (times)	-14.7	1.7	NA
Interest Coverage (times)	-0.3	6.7	8.6
DSCR (times)	-0.1	4.3	5.7

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: CRISIL Limited, vide its press release dated March 15, 2022, has disclosed that the ratings of Jayant Agro-Organics Limited has been migrated to [CRISIL]BB+(Stable)/A4+ [Issuer not cooperating] from [CRISIL]BBB+(Stable)/A2.

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 March 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					May 10, 2022	May 07, 2021	Apr 08, 2021		
1	Term Loan	Long-Term	12.00	2.40	[ICRA]A-(Positive)	[ICRA]A-(Stable)	-	-	-
2	Fund-Based Limits	Short-Term	282.10	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
3	Non-Fund Based Limits	Short-Term	7.50	-	[ICRA]A2+	[ICRA]A2+	-	-	-
4	Unallocated Limits	Long-Term / Short-Term	48.40	-	[ICRA]A-(Positive)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Short Term – Fund Based	Simple
Short Term – Non-Fund Based	Very Simple
Unallocated	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long Term Loan	June 5, 2020	Maximum of one year MCLR (7.10%)	July 31, 2022	12.00	[ICRA]A-(Positive)
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-(Positive)/[ICRA]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

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