February 07, 2023

Jindal Worldwide Limited: Rating reaffirmed and withdrawn

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	25.00	25.00	[ICRA]A2+; reaffirmed and withdrawn
Total	**25.00**	25.00	

^Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed and withdrawn the short-term rating of [ICRA]A2+ assigned to the Commercial Paper (CP) programme of Jindal Worldwide Limited (JWL) at the request of the company as there is no amount outstanding against the rated instrument.

While assigning the rating, ICRA has considered the consolidated financials of Jindal Worldwide Limited (JWL) along with its four subsidiaries and 10 other entities (to which JWL has provided corporate guarantees), together referred to as the JWL Group.

The rating assigned to JWL draws comfort from the extensive experience of the promoters in the industry as well as its leading position in denim manufacturing in India with an annual installed capacity of ~140 million metre per annum (including job work). Being in the industry since 1980, the management has established relationships with its customers and suppliers, which help the company in receiving regular and repeat orders. Additionally, the manufacturing facility is in Gujarat, which is in proximity to the cotton growing belt. Over the past few years, JWL has set up various Group companies to facilitate backward integration and increase the weaving capacity, which also supports the overall operational risk profile of JWL.

The rating is, however, constrained by the moderate financial profile of the Group, marked by high debt levels owing to debt-funded capital expenditure incurred in FY2022. Additionally, the JWL Group had also advanced significant loans and advances, mainly to other related (owned by promoters) entities. As a result, JWL's debt levels remained elevated, translating into subdued financial profile with total debt to operating profit of 3.2 times as on March 31, 2022. The ratings also remain constrained by the inherent cyclicality associated with the denim sector, susceptibility of profitability to fluctuations in raw material prices (mainly cotton) and the working capital-intensive nature of the company's operations with the net working capital vis-à-vis the operating income of 33% in FY2022.

Key rating drivers and their description

Credit strengths

Established market position as one of the country's leading denim manufacturers – With an annual installed capacity of ~140 million metre per annum (including job work), JWL is among the leading players involved in denim manufacturing in India. The company enjoys diversified operations in the textile value chain. The company's facilities are spread over four manufacturing units in Ahmedabad, Gujarat, which include processes like spinning, weaving, processing, and finishing. It also manufactures cotton-based bottom-wear and printed shirting. JWL primarily caters to the low-medium quality denim segment. It has a well-established network of dealers in the domestic market and enjoys strong relationship with its clients.

Extensive experience of the promoters in the textile industry – Dr. Yamunadutt Agrawal is the Founder and Chairman of the Group and has more than four decades of experience in the textile industry. Under his leadership, the Group has been able to establish its reputation in the market and has become a known player in the denim industry.

Proximity to cotton-growing belt and backward-integrated operations support operational risk profile – JWL's manufacturing facilities in Ahmedabad are in proximity to the cotton-growing belt in Gujarat. Also, over the past few years, JWL has set up various group companies to facilitate backward integration and increase the weaving capacity, which also supports the overall operational risk profile of JWL. At present, the company is able to meet a significant share of its yarn requirement from the in-house capacities. Various sections of capital expenditure (capex) undertaken by JWL are eligible for incentives under different Central and state Government schemes such as interest subsidy on term loan, capital subsidy on plant and machinery, Goods & Service Tax (GST) refund and power subsidy. These incentives also support the company's overall returns, however, timely receipt of the same remains crucial.

Healthy operational performance in FY2022 and H1 FY2023 – From Q3 FY2021, the demand for denim had picked up as the developed nations (the US, the UK and the UAE) reduced dependence on China. This resulted in improved capacity utilisation in JWL, which sustained in FY2022 and H1 FY2023 as well. With increased demand, the yarn prices also remained adequately supported, resulting in an improvement in realisations. This led to a 50% YoY revenue growth to Rs.2,560.3 crore in FY2022. In H1 FY2023, the Group had registered an operating income of Rs.1,122.1 crore. The operating profit margin (OPM), however, declined in FY2022 to 11.7%, amid high cotton prices. Additionally, increase in energy prices led by Russia-Ukraine war also impacted the operating margins adversely in FY2022. In H1 FY2023, the OPM improved to 15.2% due to increased operational efficiencies with increase in spinning capacity led by backward integration. Also, moderation in cotton prices positively impacted the margins.

Credit challenges

Moderate financial risk profile – The financial profile of the Group is moderate, marked by high debt levels owing to debt-funded capital expenditure incurred in FY2022. Additionally, the JWL Group has extended significant loans and advances to other related (owned by promoters) entities worth Rs. 220.3 crore as on March 31, 2022 and Rs. 334.2 crore as on September 30, 2022, constituting 31% and 43% of the net worth. In addition, there are short-term advances of Rs.224.7 crore as on March 31, 2022 and Rs. 194.8 crore as on September 30, 2022. Owing to these loans and advances, JWL's debt levels have remained elevated, translating into subdued financial profile with a total debt to operating profit of 3.2 times as on March 31, 2022 despite increased scale of operations and profits. As indicated by the management, Rs.180 crore is expected to be recovered in FY2023 and the balance by March 2024. This remains a key rating monitorable.

High working capital intensity of operations – The working capital intensity of the Group has remained high at 31% as on March 31, 2022 and 39% as on September 30, 2022. JWL enjoys credit period of 0-30 days from its suppliers and provides credit period of 30-45 days to its customers against which it holds inventory of finished goods of 100-105 days. The receivable period has increased in H1 FY2023 as the Group has extended higher credit period to its customers amid uncertainty led by the Russia-Ukraine war.

Cyclicality in denim industry; vulnerability of profitability to any adverse fluctuation in key raw material prices – The denim industry is highly cyclical in nature, marked by periods of excess capacity followed by tight demand-supply situation. This is mainly because of smaller gestation period required in setting up a denim manufacturing unit. Being a denim manufacturer, JWL's performance will remain exposed to the inherent cyclicality in the denim industry. The profit margins of the company also remain susceptible to raw material price fluctuations, which affect sales realisations. Any adverse movement in the prices of key raw materials like cotton could impact the margins.

Environmental and Social Risks

Environmental considerations: Environmental risks indirectly affect the industry, primarily through water, land use, and the climate impact of production as well as post-consumer waste. While these risks have not resulted in material implications so far, policy actions towards waste management and environmental impact such as to recycle textile as well as packaging waste being generated, could have cost implications for the companies. These apart, dyeing and processing of fabrics cause water pollution and result in significant waste water generation. Lack of proper system to ensure appropriate pre-treatment of waste water and avoid leakages etc. could result in significant penalties, while also causing prolonged disruptions to operations due to strict action by the authorities. However, the company is focusing on sustainable practices of recycling and reusages of wastes to mitigate the related risks. The company has also incorporated effective water management plans across its business and installed efficient effluent treatment plants to conserve natural resources.

Social considerations: Being a labour intensive segment, entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and overall well-being. Further, any significant increase in wage rates may adversely impact the cost structure of apparel manufacturers, impacting the margins. Risks of protests/ conflicts with local communities and/ or shortage of skilled workers could also affect operations/ growth plan and remain key concerns. Entities also remain exposed to any major shift in consumer preferences or developments affecting discretionary consumer spending, which may result in losses on non-moving inventory and may necessitate efforts to update product portfolio. Over the years, the Group has demonstrated a track record of managing its labour requirements well, both in terms of their sufficiency as well as their safety and overall well-being.

Liquidity position: Adequate

JWL's liquidity profile is adequate, supported by available free cash and bank balances of Rs.170.8 crore as on September 30, 2022. Besides, the average utilisation of working capital stood at 83% of the sanctioned limits of Rs.250.0 crore during the 12-month period ending in September 2022, which provides additional buffer of around Rs.42.4 crore as on September 30, 2022. Additionally, on a consolidated basis, the Group is expected to generate healthy cash flow in the range of Rs.165 crore to Rs.200 crore during FY2023-FY2025, which is sufficient to repay its long-term debt obligation of Rs. 109.7 crore, Rs. 108.9 crore, Rs. 101.5 crore and Rs. 81.9 crore in FY2023, FY2024, FY2025 and FY2026, respectively. The estimated capital expenditure (capex) for FY2023 stand at Rs. 150.0 crore, including Rs. 134 crore towards setting up of spinning facilities under Goodcore Spintex Private Limited, funded by an additional term loan of Rs. 87 crore. There are no further capacity expansion plans as of now and the management estimates to incur only maintenance capex in FY2024. The Group has also announced its foray into the electric vehicle (EV) segment in H1 FY2023. However, no large capital outlay is expected in this segment over the next one year.

Rating sensitivities

Positive factors – ICRA could upgrade JWL's rating if there is a continued growth in revenues and increase in profitability, improving its coverage metrics and liquidity profile. Specific factor that could lead to a rating upgrade includes an improvement in debt to operating profit to below 2.0 times on a sustained basis.

Negative factors – ICRA could downgrade the rating if there is pressure on the operating performance, or any stretch in the working capital cycle or any sizeable debt-funded capex or a further increase in loan and advances adversely impacts the coverage metrics and the company's liquidity position. Specific factor that could result in a rating downgrade includes weakening in the interest cover to below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Textiles- Fabric Rating Approach- Consolidation Policy on withdrawal of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings of JWL, ICRA has considered the consolidated financials of JWL (along with its subsidiaries) with all companies to which JWL has provided corporate guarantee. Details of these have been enlisted in **Annexure 2**

About the company

Incorporated in 1986, Jindal Worldwide Limited (JWL) is the flagship company of the Ahmedabad-based Jindal Group and is promoted by Dr. Yamunadutt Agrawal. JWL is listed on both BSE and NSE. With an annual installed capacity of ~140 million metre (including job work) per annum, JWL is among the leading players involved in denim manufacturing in India. Moreover, it also manufactures cotton-based bottom-wear and printed shirting with an installed capacity for bottom weight fabrics of 25 million metres, and premium shirting of 25 million metres. The manufacturing unit is located in Ahmedabad. The facility is spread over four manufacturing units. JWL's product profile consists of denim fabric, yarn-dyed shirting and bottom width, as well as export-centric home furnishing items.

Key financial indicators (Consolidated)

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	1,709.2	2,560.3
PAT (Rs. crore)	53.3	126.1
OPBDIT/OI (%)	14.0%	11.7%
PAT/OI (%)	3.1%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.7
Total Debt/OPBDIT (times)	3.2	3.2
Interest Coverage (times)	3.4	4.2

Source: Financial statements of JWL, its subsidiaries and other entities to which it has provided corporate guarantees ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA's calculations

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 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Feb 07, 2023	Jan 19, 2023	-	-
1	Commercial Paper	Short-term	25.00	-	[ICRA]A2+, withdrawn	[ICRA]A2+		-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – Commercial Paper	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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Commercial Paper*	-	-	-	25.00*	[ICRA]A2+, reaffirmed and withdrawn

**Proposed*

Annexure-2: List of entities considered for consolidated analysis:

Sr.	Company Name	Consolidation Approach
1	Planet Spinning Mills Private Limited	Full Consolidation
2	Jindal Mobilitric Private Limited	Full Consolidation
3	Kashyap Tele-Medicines Limited	Full Consolidation
4	Goodcore Spintex Private Limited	Full Consolidation
5	Amitara Overseas Private Limited	Full Consolidation
6	Gayatri Weavers Private Limited	Full Consolidation
7	Yash Exports (India) Private Limited	Full Consolidation
8	Yash Weavers Private Limited	Full Consolidation
9	Bhagyalakshmi Spintex Private Limited	Full Consolidation
10	Jindal Creations Private Limited	Full Consolidation
11	Deepshikha Exim Private Limited	Full Consolidation
12	Niharika Threads Private Limited	Full Consolidation
13	Balaji Weft Private Limited	Full Consolidation
14	Saroj Weavers Private Limited	Full Consolidation

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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.

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