

November 28, 2017

## JAK Group Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term fund-based	5.00	[ICRA]BB+ (Stable); outstanding
Short-term fund-based	40.00 (enhanced from 20.00)	[ICRA]A4+; assigned/outstanding
<b>Total</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus)<sup>1</sup> on the Rs. 40.00-crore (enhanced from Rs. 20.00-crore) bank facilities of JAK Group Private Limited (JAK)<sup>2</sup>. ICRA has an outstanding rating of [ICRA]BB+ (pronounced ICRA double B plus) on the Rs. 5.00-crore fund-based bank facilities of JAK. The outlook on the long-term rating is 'Stable'.

### Rationale

ICRA's ratings take into account the extensive experience of the promoters in the export of leather products, which has helped the company to build an established customer base. The ratings also take into consideration the healthy return indicators and the adequate debt coverage indicators. Despite modest capital structure of the company, the debt coverage remains comparable to the rating category. Furthermore, ICRA's ratings reflect JAK's order position, which provides revenue visibility in the near term.

The ratings are, however, constrained by the high working capital intensive nature of JAK's operations caused by high inventory requirement on account of import dependency, seasonal supply of leather in the domestic market and the high lead time. Further, ICRA takes into account the leveraged capital structure due to high dependence on working capital borrowings as reflected in the gearing of 3.31x as on March 31, 2017 (although reduced from previous year) and the vulnerability of JAK's operations to the changes in foreign exchange movements and raw material prices changes.

Going forward, the ability of the company to scale up the operations, ensure profits and optimise working capital intensity will be the key rating sensitivity. Any major debt-funded capital expenditure and its funding will be closely monitored.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

- **Significant experience of the promoters in leather product export** - JAK is a promoter-driven company with promoters having close to two decades of experience in the leather product exports.
- **Healthy revenue base with established customer base** - JAK's operating income witnessed a growth of ~6% in FY2017. JAK has been associated with several reputed international brands and has successfully ensured repeat orders from its existing customers and has added new customers regularly.
- **Positive policy measures from the GOI such as Integrated Development of Leather Sector (IDLS) Scheme** - The IDLS Scheme is an investment grant scheme for technology up-gradation, modernisation, and capacity creation in all segments of the leather industry.

### Credit weaknesses

- **Working capital intensive nature of JAK's operations** - Bulk export causes high work-in-progress activities at each point, blocking working capital in inventories on account of import dependency, seasonal supply of leather in the domestic market and the high lead time.
- **Moderate capital structure** – The capital structure remains leveraged due to high dependence on working capital borrowings as reflected in the gearing of 3.31x as on March 31, 2017 (although reduced from previous year).
- **Vulnerable to foreign exchange fluctuations** – With majority of export sales, the company remains exposed to exchange rate fluctuations; however, borrowings in foreign currency mitigate the risk to some extent. Also, it is vulnerable to increase in raw material prices; partially mitigated by the ability to pass on the increased cost burden in majority of orders.

### Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company:

Established in 2002, as a proprietorship concern, it was converted into a private limited company in April 2015 with the title "JAK Group Private Limited". JAK is a manufacturer and exporter of ladies' handbag, men's wallet and belts. The manufacturing process is carried out at its three manufacturing facilities located in Gurugram, Haryana. JAK also added a line for in-house leather finishing in FY2016.

For FY2017, the company reported profit after tax (PAT) of Rs. 3.61 crore on an operating income (OI) of Rs. 144.47 crore compared with a PAT of Rs. 2.80 crore on an OI of Rs. 136.58 crore in the previous year.

**Key financial indicators (Audited)**

Particulars	FY2015	FY2016	FY2017
Operating Income (Rs. crore)	178.51	136.58	144.47
PAT (Rs. crore)	6.14	2.80	3.61
OPBDIT/ OI (%)	9.23%	7.05%	6.09%
RoCE (%)	22.09%	11.26%	13.59%
Total Debt/ TNW (times)	7.52	7.46	3.31
Total Debt/ OPBDIT (times)	4.14	6.21	4.38
Interest Coverage (times)	3.09	2.57	3.06
NWC/ OI (%)	29%	29%	14%

*OI: Operating Income; 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);*  
*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				<b>November 2017</b>	<b>July 2017</b>	-	-	-
1	Foreign Currency Term Loan	Long Term	5.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-	-
2	Pre-Shipment Credit In Foreign Currency	Short Term	40.00	[ICRA]A4+	[ICRA]A4+	-	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Year of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Foreign Currency Term Loan	-	-	FY2020	5.00	[ICRA]BB+ (Stable)
Pre-Shipment Credit In Foreign Currency	-	-	-	40.00	[ICRA]A4+

Source: JAK Group Pvt. Ltd.

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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.

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.

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