September 03, 2020

Jagatjit Industries Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	200.00	[ICRA]B+ (Stable); assigned
Total	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to Jagatjit Industries Limited (JIL) favourably factors in the established track record of the promoters in liquor business. The company has a countrywide presence for sales of Indian made foreign liquor (IMFL) and country liquor through franchise agreement and contract manufacturing. JIL has been selling IMFL under the well-known brand name of Aristocrat since 1968 and thus, has a legacy of over five decades. The rating also positively factors in the growing food business through their partnership with Hindustan Unilever (HUL) whose penetration is much higher in the market. The rating also factors in the reputed tenant profile in the real estate business, which lends revenue visibility in near to medium term. ICRA also takes comfort from the DSRA mechanism present in LRD loan where the company is maintaining an amount equivalent to three months' EMI and interest as DSRA in the form of fixed deposit. Moreover, JIL is expected to report better operating income and profitability in the current year on the back of its new sanitizer business and revival of extra neutral alcohol (ENA) business.

The rating, however, is constrained by the high tenant risk in lease rental business as the entire facility has been leased out to only four tenants, though a strong tenants' profile reduces the risk to some extent. Out of the four current tenants, Khaitan & Co. will vacate the office space in September 2020. Hence, the availability of new tenant during the ongoing Covid-19 pandemic remains an important criterion. Moreover, the cash cover has been below one, signifying some dependence on cash flows from other businesses or promoter support. Also, overall the operational and financial performance of JIL remains weak with losses even at the operating level. In addition, losses incurred in the previous years have resulted in negative net worth position of the company with inadequate debt coverage metrics. Moreover, the rating continues to be constrained by the highly regulated nature of the industry as well as the high level of duties and taxes that result in the vulnerability of sales volume and profitability to any adverse change in the duty structure.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that JIL will continue to benefit from its established track record of operations and its promoters and reputed tenant profile.

Key rating drivers and their description

Credit strengths

Established presence in domestic IMFL market through its flagship brand Aristocrat with operational track record of over five decades - The promoters of the company have more than seven decades of experience in the domestic IMFL and country liquor business. Moreover, the company's flagship brand—Aristrocrat—has an operational track record of over five decades. Such a long track record has helped JIL to build a strong brand image.

DSRA of one quarter maintained in case of LRD loan - The company maintains one-quarter DSRA of principal and interest amount in case of LRD loan; hence, it has sufficient liquidity cushion.

Regular rental income and steady malted milk food sales partially mitigate impact of weakness in liquor business - JIL has operations in liquor business, malted milk food and real estate. Over the years, steady rental income from reputed parties like Siemens Limited, Khaitan & Co., Luthra & Luthra, etc. and regular sales of its malted milk food business on account of long-term supply contract with Hindustan Unilever have cushioned the losses incurred in the liquor business.

Diversified revenue stream from three business verticals - The company's diversified revenue stream from its three business verticals—liquor, dairy products and real estate—lowers its dependence and revenue-concentration risk.

Credit challenges

Declining IMFL sales volume continue to affect revenues - The IMFL sales volume of the company has been declining since FY2017 as the company moved to contract manufacturing and franchise model. This has resulted in an overall decline of sales to Rs. 248.64 crore in FY2020 from Rs. 510.94 crore in FY2017.

Continuous losses due to high fixed overheads and debt service obligation amid declining sales result in substantial net worth erosion – Given the high employee expenses and power cost coupled with yearly debt service obligation, JIL has suffered losses even at the operating level. Its total net loss and net worth in FY2020 stood at Rs. (50.91) crore and Rs. (228.14) crore, respectively.

Escalated debt levels and declining net worth further weaken financial profile- As per the unaudited financials of FY2020 JIL's financial profile remained weak with negative operating profit margin of -7.09% and negative DSCR of -0.06 times in the same financial year. The escalated debt levels on account of high-cost debt funding of the cash losses along with declining net worth resulted in further weakening of the company's financial profile.

Timely monetisation of surplus real estate asset remains critical for maintaining liquidity and timely debt servicing - As per the company's management, JIL's surplus real estate asset is expected to fetch Rs. 130 crore in FY2021 and FY2022. Hence, timely monetisation of the asset is crucial for maintaining liquidity and timely debt servicing capability of the company.

Highly regulated industry structure limits pricing and distribution flexibility of industry players; high duty and tax levels make sales volume and profitability vulnerable to adverse changes in duty structure - The liquor industry is highly regulated with the state government controlling the sales and distribution, making JIL susceptible to changes in Government policies. Any change in Government policies with respect to production, distribution of liquor, taxation, and state excise duty or any material changes in the duty structure may impact the liquor industry and the company.

Liquidity position: Stretched

The liquidity position is **stretched** as the rental inflows in FY2021 will be impacted while the company would continue to incur fixed costs. The company currently has availed three months moratorium for debt servicing. However, its liquidity post moratorium is likely to remain stretched and dependent on receipt of timely rentals from its tenants.

Rating sensitivities

Positive triggers - The rating may be upgraded if there is sustained improvement in profitability of the company along with the stabilisation of rentals post the Covid-19-realted lockdown, resulting in it maintaining comfortable liquidity profile

Negative triggers - Delay in receipt of rentals from its tenants leading to cash flow mismatches or inability to find a new tenant in place of Khaitan & Co., or substantial decline in profitability leading to deterioration in liquidity profile on a sustained can be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt back by Lease Rentals
Parent/Group Support	Not applicable
Standalone/Consolidation	The rating is based on standalone position of JIL

About the company

Jagatjit Industries Limited (JIL) was incorporated in 1944 by Mr. L.P. Jaiswal under the name of Jagatjit Distilling and Allied Industries Limited. The name was subsequently changed to the present one. The company manufactures an entire range of alcoholic beverages, namely whisky, rum, gin and vodka. It also manufactures and markets malt extracts and malted milk foods. Further, it generates rental income from real estate.

Key financial indicators (audited/unaudited)

	FY2019 (audited)	FY2020 (unaudited)
Operating Income (Rs. crore)	246.24	248.64
PAT (Rs. crore)	-64.72	-60.23
OPBDIT/OI (%)	-7.91%	-7.09%
PAT/OI (%)	-26.28%	-24.22%
Total Outside Liabilities/Tangible Net Worth (times)	-3.30	-2.28
Total Debt/OPBDIT (times)	-14.10	-14.26
Interest Coverage (times)	-0.27	-0.40

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					03-Sep-2020	-	-	-	-
1	Term Loan	Long Term	200.00	200.00	[ICRA]B+ (Stable)	-	-	-	-

Amount in Rs. crore

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 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	Term Loan	December 2018	NA	March 2034	200.00	[ICRA]B+(Stable)

Source: JIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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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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