

Rating Advisory

September 30, 2020 | Mumbai

Jakharia Fabric Limited

Advisory as on September 30, 2020

This rating advisory is provided in relation to the rating of Jakharia Fabric Limited

The key rating sensitivity factors for the rating include:

Upward factor

Successful ramp up of operations of JI with revenue growth of 10-15% in JFL leading to accruals of group of more than Rs 90 million

Maintenance of capital structure and working capital cycle

Downward factor

Delay in ramping up of JI or decline in revenue growth of 10-15% in JFL leading to accruals less than Rs 60 million

Increase in working capital requirement, larger-than-expected debt-funded capex or acquisition, or more-than-expected capital withdrawals, weakening the financial risk profile, particularly liquidity.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Jakharia Fabric Limited (JFL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If JFL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt. Nov 1, 2016, SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/71 dt. June 30, 2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt. January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

JFL, set up in 2007 by Mr Himatlal Shah his family, undertakes end-to-end singeing, washing, and singlepass and double-pass dyeing on jobwork basis.

JI, established in 2016, undertakes printing and dyeing on jobwork basis. The firm commenced its operation in June 2019.

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Rating Rationale

December 09, 2019 | Mumbai

Jakharia Fabric Limited

Rating migrated to 'CRISIL BB-/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.19.75 Crore
Long Term Rating	CRISIL BB-/Stable (Migrated from 'CRISIL BB-/Stable ISSUER NOT COOPERATING**')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

*Issuer did not cooperate; based on best-available information

Detailed Rationale

Due to inadequate information, CRISIL, in line with SEBI guidelines, had migrated the rating of Jakharia Fabric Limited (JFL; part of Jakharia group) to 'CRISIL BB-/Stable Issuer Not Cooperating'. However, the management has subsequently started sharing requisite information, necessary for carrying out comprehensive review of the rating. Consequently, CRISIL is migrating the rating on the long term bank facilities of JFL from 'CRISIL BB-/Stable Issuer Not Cooperating' to '**CRISIL BB-/Stable**'.

The rating continues to reflect extensive experience of the group's promoters in the textile industry and their funding support, along with a moderate financial risk profile. These strengths are partially offset by susceptibility of the operating margin to volatility in raw material prices and risks associated with successful ramp up of its subsidiary.

Analytical Approach

For arriving at the rating, CRISIL has combined the business and financial risk profiles of JFL and its subsidiary, Jakharia Industries (JI) as both these entities, together referred to as the Jakharia group, have common promoters and are in the same business. Also, JFL is a partner in JI.

Out of the total unsecured loans outstanding at Rs 17 crore of the Jakharia group as on March 31, 2019, extended by the promoters and associated parties, Rs 12.74 crore has been treated as neither debt nor equity as these loans are expected to remain in the business over the medium term; the remaining has been treated as debt.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* **Extensive experience of promoters:** Presence of more than two decades in the textile industry has enabled the promoters to establish strong relationships with its existing customers and also increase its customer base.

* **Moderate financial risk profile:** Group's networth and total outside liabilities to adjusted net worth (TOLANW) ratio were moderate at around Rs 45.53 crore and 1.38 times as on March 31, 2019. Debt protection metrics has been comfortable marked by interest coverage and net cash accrual to adjusted debt ratios at 7.0 times and 0.13 time, respectively, in fiscal 2019.

Weaknesses:

* **Exposure to volatility in prices of key inputs:** Key raw materials (colours and chemicals for dyeing, coal and lignite for boilers) account for 50-55% of the total production cost and any fluctuation in their prices can adversely affect the operating margin.

* **Successful scale up of its subsidiary:** JI has commenced its operations in June 2019. Successful scale up of its operations and sustenance of same will be key rating sensitive factor.

Liquidity Stretched

Group has stretched liquidity marked by tightly matched accruals to meet term debt obligations of Rs.5.89 crore over fiscal 2020 and fiscal 2021. The company has access to fund based limits of Rs 3 crore, which are almost fully utilized over the 12 months ended September 30, 2019. Group had cash and cash equivalents of Rs 5.36 crore as on March 31, 2019. Liquidity risk is partly mitigated by funding support from promoters in the form of unsecured loans which stood at Rs.17 crore as on March 31, 2019.

Outlook: Stable

CRISIL believes Jakharia group will continue to benefit over the medium term from the extensive experience of its promoters and their funding support.

Rating Sensitivity Factor

Upward factor

- * Successful ramp up of operations of JI with revenue growth of 10-15% in JFL leading to accruals of group of more than Rs 9 crore
- * Maintenance of capital structure and working capital cycle

Downward factor

- * Delay in ramping up of JI or decline in revenue growth of 10-15% in JFL leading to accruals less than Rs 6 crore
- * Increase in working capital requirement, larger-than-expected debt-funded capex or acquisition, or more-than-expected capital withdrawals, weakening the financial risk profile, particularly liquidity.

About the Company

JFL, set up in 2007 by Mr Himatlal Shah his family, undertakes end-to-end singeing, washing, and singlepass and double-pass dyeing on jobwork basis.

JI, established in 2016, undertakes printing and dyeing on jobwork basis. The firm commenced its operation in June 2019.

Key Financial Indicators - (Combined)

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	69.98	88.52
Reported profit after tax	Rs crore	2.78	2.47
PAT margins	%	3.98	2.79
Adjusted Debt/Adjusted Net worth	Times	0.93	0.63
Interest coverage	Times	7.00	7.88

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	2	CRISIL BB-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	8.75	CRISIL BB-/Stable
NA	Term Loan	NA	NA	Mar-26	9	CRISIL BB-/Stable

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Jakharia Fabric Limited	100% consolidation	Common management and strong financial link, also JFL is a 88% partner in JI
Jakharia Industries	100% consolidation	Common management and strong financial link, also JFL is a 88% partner in JI

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	19.75	CRISIL BB-/Stable	27-06-19	CRISIL BB-/Stable (Issuer Not Cooperating)*	12-06-18	CRISIL BB/Negative	30-03-17	CRISIL BB/Negative			CRISIL BB/Stable

All amounts are in Rs.Cr.

*Issuer did not cooperate; based on best-available information

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	2	CRISIL BB-/Stable	Cash Credit	2	CRISIL BB-/Stable/Issuer Not Cooperating
Proposed Long Term Bank Loan Facility	8.75	CRISIL BB-/Stable	Proposed Long Term Bank Loan Facility	8.75	CRISIL BB-/Stable/Issuer Not Cooperating
Term Loan	9	CRISIL BB-/Stable	Term Loan	9	CRISIL BB-/Stable/Issuer Not Cooperating
Total	19.75	--	Total	19.75	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating Criteria for Cotton Textile Industry
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