

Rating Advisory

February 18, 2022 | Mumbai

Jayant Agro-Organics Limited

Update as on February 18, 2022

This rating advisory is provided in relation to the rating of Jayant Agro-Organics Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Significant sustained improvement in revenue while maintaining operating margin above 5% leading to significant improvement in net cash accruals and debt protection metrics sustaining above 5 times.
- Prudent working capital management leading to total outside liabilities to tangible net worth ratio below 0.6 times.

Downward factors

- Decline in operating margin to below 3% or lower than expected revenue resulting in lower accruals.
- Increase in working capital requirement, larger-than-expected, debt-funded capex or acquisition, or more-than-expected dividend pay-out, 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 Ratings is yet to receive adequate information from Jayant Agro-Organics Limited (JAOL) to enable it to undertake a rating review. CRISIL Ratings 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 Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If JAOL continues to delay the provisioning of information required by CRISIL Ratings 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 Ratings will carry out the review based on best available information and issue a press release.

About the Company

JAOL, set up in 1992, manufactures castor oil and castor-oil-based derivative products. Its promoters have been in the castor oil business since 1952, when they set up Jayant Oil Mills. Following the separation of the Kapadia and Udeshi promoter families in 2002, JAOL was separated from the Jayant Oil Mills group (which became a part of the Kapadia group). Since March 2002, the Udeshi family has taken exclusive control of JAOL. IAPL was set up as a backward integration initiative into seed crushing in fiscal 2002. In October 2013, Arkema acquired 24.9% stake in IAPL for about Rs 30 crore. Ihsedu Speciality Chemicals Pvt Ltd (ISCPL) was set up in 2006 as a JV of JAOL and Mitsui & Co Ltd, Japan. ISCPL manufactures sebacic acid, a castor oil-based derivative; it commenced regular

commercial production in December 2011. In August 2011, JAOL bought all the shares of ISCPL, making the latter a wholly owned subsidiary. Subsequently, in October 2011, ISCPL was merged with JAOL.

ICSPL was set up to manufacture hybrid seeds. IIGCMPL was incorporated in fiscal 2011, with JAOL holding 90% equity stake, which got reduced to 60% in September 2011 post purchase by Itoh Oil Chemicals Co Ltd (IOCCL), Japan. IIGCMPL started commercial activity from April 2012. In fiscal 2014, JAOL entered into a 50:40:10 JV agreement with Mitsui Chemicals, Japan and IOCCL, Japan to invest in the equity shares of VCCPL.

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Rating Rationale

March 01, 2021 | Mumbai

Jayant Agro-Organics Limited

Ratings reaffirmed at 'CRISIL BBB+ / CRISIL A2'; outlook revised to 'Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.350 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed and outlook revised to 'Stable')
Short Term Rating	CRISIL A2 (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long term bank facilities of Jayant Agro-Organics Limited (JAOL, part of Jayant group) to '**Stable**' from 'Negative' while reaffirming the rating at 'CRISIL BBB+'. Rating on short term bank facilities has been reaffirmed at 'CRISIL A2'.

The revision in outlook reflects amelioration of group's business and financial risk profile driven by improvement in profitability and reduced inventory levels in the current fiscal. During fiscal 2020, large unanticipated losses due to sharp decline in prices of castor, and some counter parties failing to honor committed contracts had impacted financial risk profile, particularly debt protection metrics. However, in the current fiscal till December 2020, group has reported steady operating margin of around 5-6% and revenue has reached Rs 507 crore in Q3 2021 from Rs 262 crore during Q1. Also, group's working capital cycle has improved which has resulted in reduced reliance on external debt as seen in moderation of fund based limits utilisation.

The ratings continue to reflect Jayant group's leadership in the castor oil and castor oil-based derivatives business, and extensive industry experience of the promoters. The ratings also factor in healthy net worth & comfortable capital structure. These rating strengths are partially offset by exposure to risks related to competition from substitute products and susceptibility to fluctuations in prices of castor.

Analytical Approach:

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of JAOL, its subsidiaries, Ihsedu Agrochem Private Limited (IAPL) and Ihsedu Coreagri Services Pvt Ltd (ICSPL); joint venture (JV) Ihsedu Itoh Green Chemicals Marketing Pvt Ltd (IIGCMPL); and JAOL's share in Vithal Castor Polyols Pvt Ltd (VCPPL). That's because, all these entities, collectively referred to as the Jayant group, have significant operational and financial linkages with each other. Moreover, JAOL has provided corporate guarantees for the bank facilities of IAPL.

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:

- **Jayant group's leadership in the castor oil and castor oil-based derivatives business, and extensive industry experience of the promoters:** Group is the leading player in India for the castor oil and castor-oil based derivative products. Group has established its market position on back of over 5 decades of experience in castor industry. Over the years promoters have developed an understanding on the dynamics of the industry and have established healthy relation with the customers and suppliers which is expected to benefit the business risk profile over the medium term.

- **Healthy net worth & comfortable capital structure:** Jayant group's net worth is healthy at around Rs 344 crore and capital structure is comfortable marked by low total outside liabilities to adjusted net worth (TOLANW) of 0.81 times expected as on March 31, 2020. Group's adjusted debt reduced to Rs 179 crore as on March 31, 2020 against Rs 471 crore a year ago on back of change in inventory policy. Group's TOLANW is expected to remain low on account of continued prudent inventory policies. Financial risk profile is expected to improve in the medium term.

Weaknesses:

- **Exposure to risks related to competition from substitute products:** Although group has diversified product base, some of the castor oil-based derivative products manufactured by the group faces competition from crude based derivative products, which exposes its business profile to any changes in the prices of crude.
- **Susceptibility to fluctuation in prices of castor:** Acute fluctuations in the prices may impact the profitability of the group as seen in fiscal 2020. Group has reported operating profitability in range of 5.42-7.65% for four years ended fiscal 2019; however it reported operating losses in fiscal 2020. Sustenance of group's improved operating margin while improving scale to remain monitorable.

Liquidity: Adequate

Group has adequate liquidity on back of moderate bank limit utilization. Group has access to fund based limits of Rs 654 crore utilized at an average of 55.3% for last 12 months ended November 2020 indicating adequate liquidity. Net cash accruals (NCA) is expected to remain in range of Rs 35-65 crore against repayment obligation of Rs 3-6 crore per annum during fiscal 2021 and fiscal 2022. Group has moderate cash and cash equivalents of Rs 8.9 crore as on March 31, 2020. Group has adequate current ratio of 1.35 times as on March 31, 2020. Group has no major debt funded capex plans over the medium term. CRISIL Ratings believes group will continue to maintain its improved working capital cycle.

Outlook: Stable

CRISIL Ratings believe that Jayant group will maintain its leadership position in the castor oil and castor oil-based derivatives business over the medium term, backed by a large and diverse customer base.

Rating Sensitivity factors

Upward factors

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About the Company

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Key Financial Indicators (Consolidated)

As on / for the period ended March 31	Units	2020	2019
Revenue	Rs crore	2493.9	2450.7
Profit after tax (PAT)	Rs crore	(34.35)	58.4
PAT margins	%	(1.4)	2.4
Adjusted debt/Adjusted networkth	Times	0.52	1.18
Interest coverage	Times	(0.14)	3.3

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)	Complexity level	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	7.5	NA	CRISIL A2
NA	Export Packing Credit	NA	NA	NA	58	NA	CRISIL BBB+/Stable
NA	Inland/Import Letter of Credit	NA	NA	NA	5.5	NA	CRISIL A2
NA	Letter of Credit	NA	NA	NA	0.5	NA	CRISIL A2
NA	Pledge Loan	NA	NA	Mar-21	35	NA	CRISIL BBB+/Stable
NA	Pre Shipment Credit	NA	NA	NA	208.9	NA	CRISIL A2
NA	Standby Export Packing Credit	NA	NA	NA	34.6	NA	CRISIL A2

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Ihsedu Agro Chem Private Limited	Full	significant operational and financial linkages
Ihsedu Itoh Green Chemicals Marketing Pvt Ltd	Full	significant operational and financial linkages
Ihsedu Coreagri Services Pvt Ltd	Full	significant operational and financial linkages
Jayant Agro-Organics Limited	Full	significant operational and financial linkages
Vithal Castor Polyols Private Limited	To extent of share	significant operational linkages

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	336.5	CRISIL BBB+/Stable / CRISIL A2		--	17-02-20	CRISIL BBB+/Negative / CRISIL A2	05-02-19	CRISIL A2+ / CRISIL A-/Stable	29-06-18	CRISIL A2+ / CRISIL A-/Stable	CRISIL A2+ / CRISIL A-/Stable
Non-Fund Based Facilities	ST	13.5	CRISIL A2		--	17-02-20	CRISIL A2	05-02-19	CRISIL A2+	29-06-18	CRISIL A2+	CRISIL A2+

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	7.5	CRISIL A2	Bank Guarantee	7.5	CRISIL A2
Inland/Import Letter of Credit	5.5	CRISIL A2	Inland/Import Letter of Credit	5.5	CRISIL A2
Letter of Credit	0.5	CRISIL A2	Letter of Credit	0.5	CRISIL A2
Pledge Loan	35	CRISIL BBB+/Stable	Pledge Loan	35	CRISIL BBB+/Negative
Pre Shipment Credit	208.9	CRISIL A2	Pre Shipment Credit	208.9	CRISIL A2

Standby Export Packing Credit	34.6	CRISIL A2	Standby Export Packing Credit	34.6	CRISIL A2
Export Packing Credit	58	CRISIL BBB+/Stable	Export Packing Credit	58	CRISIL BBB+/Negative
Total	350	-	Total	350	-

Links to related criteria

[CRISILs Bank Loan Ratings](#)

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