Press Release

Jericho Chemicals LLP

October 7, 2020

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	**42.00**	**IVR BBB- / Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Total	**42.00 (Forty Two Crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Jericho Chemicals LLP (JCLLP) derives strength from its experienced promoter, contract manufacturer agreement with Hindustan Unilever Ltd (HUL) for its various soaps and detergents and gradual improvement in its capacity utilization over the years. The rating is also underpinned by steady improvement in its financial performance with gradual improvement in its capital structure, prudent working capital management and support of fiscal incentive from the State. However, these rating strengths remain constrained due to its customer concentration, risk of non-renewal of the contract with HUL and its moderate capital structure.

Key Rating Sensitivities:

Upward Factors

- Steady improvement in scale of operations with improvement in profitability leading to improvement in the debt protection metrics
- Improvement in the capital structure with improvement in TOL/TNW to below 3x

Downward Factors

- Dip in operating income and/or moderation in profitability
- EBIDTA margin below 7% and overall gearing above 1.00x with inconsistent profitability and deterioration in capital structure and working capital management.
- Termination of contract with HUL

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter

Mr. Binod Kumar Keyal the present promoter of JCLLP (erstwhile Jericho Chemicals Pvt Ltd, name changed in March 2018) has vast business experience over two decades in various fields like cement, HDPE bags for packing cement and similar commodities in Guwahati, Assam. Mr. Kayal acquired 79.2% stake of Jericho Chemicals Pvt Ltd from its previous promoters in January 2017 and after the acquisition, have paid all the previous dues of the entity accumulated under the old promoters and guided an effective turnaround of JCLLP into a profitable venture with successful commissioning of its plants. Infomerics believes long standing business experience of the promoter will continue to support the business risk profile of the firm.

Improvement in capacity utilization

JCLLP’s production commenced in March 2017 and in FY18, the firm recorded its first full year production which subsequently grew over the years from ~27% in FY18 to ~58% FY20.

Contract manufacturer for Hindustan Unilever Ltd (HUL)

JCLLP is a contract manufacturer for Hindustan Unilever Ltd (HUL), a well-recognized company having operations all over India and the leader in FMCG personal care, consumer care and sanitary products with a wide range of product portfolio and product mix catering to almost all sizes of household income.

Improvement in financial performance

JCLLP reported a substantial growth in the total operating income since the commencement of operations from a mere Rs.4.50 crore in FY18 to Rs.201.59 crore in FY20 (prov.). JCLLP earned a positive EBIDTA of Rs.7.87 crore on a total operating income of Rs.131.66 crore in FY19, i.e. within one year of commencing operations and EBIDTA margin improved substantially from -0.25% in FY18 to 5.98% in FY19, as a result of improvement in capacity utilisation, meeting the contract sales requirement and covering the cost of operations. JCLLP’s EBIDTA almost doubled on a y-o-y basis to Rs.16.88 crore on a total operating income of Rs.201.59 crore thereby achieving a higher EBIDTA margin of 8.37% in FY20 y-o-

y. The PAT margin were affected initially due to high cost of debt and interest expenses, since the firm was taken over by the new management and had to clear the past dues and introduce more capital for installation of enhanced capacity for HUL which inflated the project cost. However, the firm earned a PAT of Rs.8.88 crore in FY20 (prov.) as against a net loss of Rs.1.28 crore in FY19. JCLLP expects the PAT margin to improve further and stabilize after meeting its debt obligations in forthcoming years.

Prudent working capital management

JCLLP enjoys a 30-45 days of credit period with its suppliers and maintains a just in time delivery with optimum inventory management. Since the primary debtor is HUL, the payments are received in time by JCLLP, as per their contract. Hence the operating cycle remained low. However, given the volume of production, possibility of adhoc requirement availability of raw material in store and maintaining inventory the firm requires high working capital.

Support of fiscal incentive from the State

JCLLP is eligible to claim capital subsidy and indirect tax remission under North East Industrial and Investment Promotion Policy (NEIIPP), 2007. JCLLP is also entitled to income tax exemption for a period of 10 years u/s 80 IE of the Income Tax Act, 1961. Hence the firm stands to gain cash benefit from the same till 2027.

Key Rating Weaknesses

Customer concentration

The operations are entirely dependent upon HUL orders as the firm has entered into a non-compete agreement, which states that the plant will be a dedicated unit for manufacturing & packaging of soaps, detergent powder & bars for HUL. Further, there is no ‘minimum off-take’ assured by HUL, thus limiting the revenue visibility of JCLLP.

Risk of non-renewal or termination of annual contract

The contracts are valid for a period of 1 year and are due for renewal every year. Although the contract has been renewed till Jun 30, 2021 and this is the third year of renewal of contract, there is always a lingering threat of non-renewal of contract. In the event of non-renewal of contract, the firm's productions and financial sustainability may be hampered and may face significant challenges.

Moderate capital structure albeit gradual improvement

Manufacturing being a capital intensive business JCLLP has already completed the major capex and successfully commissioned the plant in March 2017. The capital structure of the firm though remained moderate, the overall gearing improved significantly from 3.17x as on March 31, 2019 to 1.72x as on March 31, 2020 (Prov.). Further, the total indebtedness of the firm also remained satisfactory with TOL/TNW at 2.91x as on March 31, 2020 (Prov.) The debt protection metrics and interest coverage ratio also improved significantly y-o-y; TD/GCA improved from 6.57x as on March 31, 2019 to 2.34x as on March 31, 2020 and interest coverage improved from 1.89x in FY19 to 3.62x in FY20.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity –Adequate

The liquidity profile of JCLLP is expected to remain adequate marked by its expected satisfactory cash accrual in the range of ~Rs.13.5-17 crore as against its debt repayment obligation in the range of Rs.4.80-6.40 crore during FY21-23. During FY20, the firm has earned a cash accrual of Rs.12.48 crore (Prov.) as against its debt repayment obligation of Rs.4.20 crore. Further, the firm exhibits prudent working capital management with its comfortable operating cycle. Moreover, the average of maximum cash credit utilisation of the company was at ~81% during the past 12 months ended July, 2020 maintaining moderate liquidity cushion.

About the Firm

JCLLP (erstwhile Jericho Chemicals Pvt Ltd, name changed in March 2018) is a contract manufacturer for Hindustan Unilever Ltd (HUL) for its various detergents and soaps. The manufacturing facility is located at Amingaon, Guwahati. The plant is a dedicated unit for manufacturing detergent powder and bar for HUL's brands, namely Surf Excel, Wheel, Rin, VIM and laundry soaps under the brand of Sunlight and OK. The present capacity of JCLLP stands at 36,113 MTPA for detergent powder, 18,225 MTPA for detergent bar and 11,700 MTPA for laundry bar.

Financials: Standalone **(Rs. crore)**

For the year ended*/ As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	131.66	201.59
EBIDTA	7.87	16.88
PAT	-1.28	8.88
Total Debt	51.62	39.38
Adjusted Net worth	20.70	24.69
EBIDTA Margin (%)	5.98	8.37
PAT Margin (%)	0.25	4.40
Overall Gearing Ratio (x)	3.17	1.72

**as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	LT	29.00	IVR BBB- / Stable	-	-	-
2.	Cash Credit	LT	13.00	IVR BBB- / Stable			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	March 2025	29.00	IVR BBB- / Stable
Long Term Bank Facilities – Cash Credit	-	-	-	13.00	IVR BBB- / Stable