



Press Release

J G Spinning Mills Private Limited

June 26, 2023

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	23.37	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total	23.37 (Rs. Twenty Three Crore and Thirty Seven Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to J G Spinning Mills Private Limited (JGS) derives comfort from the long track record of operations under experienced promoters, strategic location of the plant, healthy debt protection metrics, and comfortable operating cycle. These rating strengths are, however, constrained by the relatively moderate scale of current operations, sharp drop in profits in FY23 (Provisional), highly competitive and fragmented nature of the industry, and exposure to cyclicalities, inherent in the textile industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure leading to improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators and/or moderation in overall gearing to more than 1.50x.
- Any significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description



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Key Rating Strengths

- **Long track record of operations under experienced promoters**

JGS was incorporated in 2003 by Mr. Manish Seksaria. As on date Mr. Seksaria has an experience of twenty years in the yarn manufacturing industry and during this period he has built strong relationship with many leading hosiery players in the country. Thus, the experience of Mr. Seksaria and his relationships with end users keeps JGS in good stead across cycles. Mr. Seksaria is ably assisted by other promoters, Mrs. Gunjan Seksaria, and Mrs. Shradha Agarwal who are also reasonably experienced in the yarn manufacturing sector.

- **Strategic location of the plant**

JGS's manufacturing facility is located in Tirupur, Tamil Nadu, which is in close proximity to the plants of various end user across the value chain of the textile industry. This helps JGS in maintaining close relationships with its customers and supplying yarns to them with minimum lead time.

- **Healthy debt protection metrics**

The overall gearing of the Company on adjusted tangible network improved from 1.59x on March 31, 2021 to 0.90x and 0.94x on March 31, 2022 and March 31, 2023 respectively. This was primarily because of higher retained profits in FY22 and FY23 compared to increase in debt in these years. Total indebtedness as reflected by TOL/Adjusted TNW dropped from 2.54x on March 31, 2021 to 1.58x on March 31, 2022. It inched up slightly higher on March 31, 2023 to 1.67x. The Company incurred a cumulative capex of around Rs.8 crore in FY22 and FY23 funded by debt. Interest Coverage ratio improved markedly from 2.57x in FY21 to 7.78x in FY22 because of very high operating profits in FY22 before dropping again to 3.64x in FY23 as operating profits dwindled in FY23. DSCR remained comfortably above 2x between FY21 and FY23.

- **Comfortable operating cycle**

While the operating cycle increased from 8 days in FY21 to 19 days and 32 days in FY22 and FY23 respectively, primarily because of increase in inventory days and reduction in creditor days, it is still hovering around the 30-40 days mark, which we believe to be comfortable. The



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operating cycle in the projected period FY24-26 is expected to be in the range of 33-40 days. The current ratio of the company improved from 0.68x on March 31, 2021 to 1.47x on March 31, 2022 and dropped slightly to 1.31x on March 31, 2023.

Key Rating Weaknesses

- **Relatively moderate scale of current operations**

The Company's current scale of operations is relatively moderate at ~Rs 157 crore in FY23 (Provisional). This limits the fixed cost absorption capability of the Company in periods of stress as was witnessed in FY23 when the EBITDA margin dropped to 4.85% from 12.95% in FY22 and 6.66% in FY21. Lower absorption of fixed costs weakens the debt coverage indicators and puts pressure on the net profits that are to be retained by the Company and ultimately the capex funding ability through the internal accruals.

- **Sharp drop in profits in FY23 (Provisional)**

Operating profit (EBITDA) improved from Rs.6.31 crore in FY21 to Rs.19.64 crore in FY22 before dropping again to Rs. 7.60 crore in FY23. EBITDA margin improved substantially from 6.66% in FY21 to 12.95% in FY22 and dropped sharply to 4.85% in FY23, primarily because of high increase in raw material costs. It should be noted that the Company operates in a very cyclical industry and thus variations in gross and operating margins is a risk factor. Benign cotton prices and ample availability of cotton had substantially improved the EBITDA and EBITDA margin in FY22 while sharp rise in cotton prices and supply shortages of cotton affected the EBITDA of FY23 badly. PAT improved from Rs. 1.98 crore in FY21 to Rs.9.08 crore in FY22 before dropping again to Rs. 1.97 crore in FY23. PAT margin improved from 2.09% in FY21 to 5.98% in FY22 and dipped again to 1.25% in FY23. As pointed out, FY23 has been a particularly harsh year for the textile and yarn industry because of very high cotton prices. Prices of cotton has now stabilised and our conversation with the Management indicate that there could be a maximum +/-10% change in cotton prices in the near to medium term.

- **Highly competitive & fragmented nature of the industry**

The spectrum of the yarn industry in which the Company operates is highly fragmented and competitive due to the presence of numerous players in India owing to relatively low entry barriers. Most players in the industry thus do not have pricing power and are exposed to the



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prices dictated by the large-scale spinners in India. On the raw material side, the prices of cotton are determined by the demand and supply situation and minimum support prices announced by the Government.

- **Exposure to cyclicality, inherent in the textile industry**

The textile industry is highly cyclical. Cotton and yarn prices fluctuate based on macro-economic factors, including, amongst others, demand-supply scenarios, monsoons, etc. Adverse volatility in yarn and/or cotton prices will have an adverse effect on the Company's performance.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)
[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)
[Criteria of assigning rating outlook](#)

Liquidity – Adequate

The liquidity profile of the Company is expected to remain adequate with satisfactory cash accruals vis a- vis debt repayment obligations. The current ratio of the Company was also comfortable at 1.47x and 1.31x as on March 31, 2022 and March 31, 2023 (Provisional) respectively. Current ratio is expected to remain comfortable between 1.43x and 1.68x during March 31, 2024 and March 31, 2026. The operating cycles were comfortable at 19 and 32 days respectively in FY22 and FY23(Provisional) and are expected to remain between 33 and 40 days during FY24-FY26. The average cash credit utilisation of the Company, however, remained moderate at ~84% during the past 12 months ended March 31, 2023 indicating a liquidity cushion. Capex of around Rs 3-4 crores each are expected between FY24 and FY26 and these are expected to be funded through internal accruals.

About the Company

J G Spinning Mills Pvt Ltd (JGS), a Coimbatore-based company, is engaged in manufacturing/sale of yarn and fabrics. It is being managed by Mr Kishan Gopal Seksaria, Mr Omprakash Seksaria and Mr Manish Seksaria. The Company was incorporated in 1991 as "J G Textiles" at Kolkata. Later, in 2003, the company purchased a sick unit at Coimbatore and shifted its



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registered office to Coimbatore and was named JGS. The commercial production started from January 2004. JGS has an installed capacity of 32,016 spindles to manufacture yarn in 25-40s counts.

Financials (Standalone):

For the year ended* / As on	Rs in Crores	
	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	151.66	156.78
EBITDA	19.64	7.60
PAT	9.08	1.97
Total Debt	25.01	22.68
Tangible Net worth	19.79	21.77
EBITDA Margin (%)	12.95	4.85
PAT Margin (%)	5.98	1.25
Overall Gearing ratio (X)	1.26	1.04

**Classification as per infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	4.15	IVR BBB-/ Stable	-	-	-
2.	Dropline Overdraft	Long Term	9.22	IVR BBB-/ Stable	-	-	-
3.	Cash Credit	Long Term	10.00	IVR BBB-/ Stable	-	-	-



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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
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Term Loan 1	-	-	October 2026	2.39	IVR BBB-/ Stable
Term Loan 2	-	-	February 2027	1.76	IVR BBB-/ Stable
Dropline Overdraft	-	-	February 2026	9.22	IVR BBB-/ Stable
Cash Credit	-	-	-	10.00	IVR BBB-/ Stable

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-JG-Spinning-jun23.pdf>

Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable.

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.