



Infomerics Valuation And Rating Pvt. Ltd

Press Release

JPM Exports Private Limited

June 6, 2018

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Limits	50.00 (including proposed limits of Rs. 5 crores)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings derive comfort from experienced and highly qualified promoters with long industry experience, niche product portfolio wherein the entry barriers are high, improvement in profitability margins, product and geographical diversification and reputed clientele. The rating also takes into consideration high gearing levels and moderate debt coverage indicators, small scale of operations, working capital intensive operations, customer concentration and intense competition in the casual wear segment.

Gearing level, small scale of operations and profitability and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Experienced and highly qualified promoters with long industry experience
- Niche product portfolio wherein the entry barriers are high
- Improvement in profitability margins
- Product and geographical diversification
- Reputed clientele
- High gearing levels and moderate debt coverage indicators
- Small scale of operations
- Working capital intensive operations
- Customer concentration
- Intense competition in the casual wear segment



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Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced and highly qualified promoters with long industry experience

Mr. Dilip Madhogaria is the founding Director & CEO of the Company. He is a management graduate from XLRI, Jamshedpur, apart from being a member of the Institute of Chartered Accountants of India and a member of Institute of Cost and Works Accountants of India. He carries with him vast experience of over 20 years in the industry of manufacturing and exporting industrial wear. Prior to JPM, Mr. Dilip was partner in another garment export company for about a decade. His nephew, Mr. Pankaj Madhogaria is Executive Director in the company since its inception. He is a graduate from Indian Institute of Technology (IIT), Delhi with specialization in Mechanical Engineering. He has been instrumental in building the company with his expertise in the areas of supply chain management, logistics & administration.

Niche product portfolio wherein the entry barriers are high

Since its inception the company has been manufacturing industrial garments primarily for export markets, which is a niche segment. The product range of the company includes various industrial garments like flame retardant uniforms, high visibility uniforms, hospital wear, military uniforms etc. The quality of products is approved by European testing labs. The company also has international accreditations and certifications like ISO 9001:2015 and Oeko Tex Standard 100 for its industrial garments. The company also has SA 8000:2014 accreditation for its labour practices.

Improvement in profitability margins

The EBITDA margin of the company improved to 12.53% in FY 17 from 8.44% in FY 16 primarily due to stabilization of assembly line process resulting in operating efficiencies. Further, increase in the scale of operation has supported the improvement in margin to 14.65% in FY18.



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Product and geographical diversification

Till FY15, the company manufactured only industrial garments for export markets, however from FY16 onwards, to diversify the product risk and geographical risk, it entered into manufacturing of ready-made garment segment (casual/formal wear) primarily for domestic market. Export sales accounted for around 45% of the total sales of JPM in FY18 (FY17:- 50%). Exports are diversified across various countries primarily Germany, Italy, Spain Sweden, Hong Kong etc.

Reputed clientele

JPM caters to many reputed clients both in India as well as abroad. Its clients include domestic apparel giants like Reliance Retail. The company also supplies industrial wear to many well-known clients abroad. Some of them are Planam (Germany), Eagle Technical (UK), Lafodex SA (France), Base International Ltd (Hong Kong) etc.

Key Weaknesses

High overall gearing and moderate debt coverage indicators; in spite of substantial improvement in networth in March 2018

Interest bearing unsecured loans aggregating to Rs.7.34 crores has been converted into equity in March 2018 resulting in improvement in overall gearing of the company from 3.98x as on March 31, 2017 to 2.44x as on March 31, 2018. However, the overall gearing continues to be high. The total debt to GCA also continues to high at around 16.11x times as March 31, 2017 (15.82x times as March 31, 2018). However, term debt to GCA has reported marked improvement from 4.53x as on March 31, 2017 to 1.79x as on March 31, 2017. The interest coverage ratio was moderate at 1.71x for FY 17 (FY18:-1.54x).

Small scale of Operations

Though JPM has reported healthy growth in the scale of operation with top line increasing from Rs.63.13 crores in FY17 to Rs.73.79 crores in FY18, the scale of operations of the company continues to be small.



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Working capital intensive operations

Operations of the company are working capital intensive, marked by its high operating cycle of 230-240 days. The inventory days are high at around 160 days to 170 days. This is primarily on account of high raw material holding period. Export sales comprise around half of the total sales of the company. Manufacturing of technical garments under stringent quality controls for exports increases the processing and approval time. Development and testing of some technical fabrics in Europe has high lead time, even up to 5-6 months. The work wear fabrics are made to order requiring multiple levels of approvals. The company also imports around 18% of fabrics from China leading to longer lead time and also many basic fabrics need to be procured with “Minimum order quantity” (MOQ) which is higher than the individual order requirement, resulting in higher inventory. All the production is backed by orders in hand from the clients. The company procures raw material majorly on advance payment basis or cash on delivery basis resulting in lower average creditor days of up to 15 days.

The company also takes advance from customers, which helps the company in meeting its liquidity requirements to some extent. As on March 31, 2018, aggregate amount of advance from customers stood at Rs.3.67 crores. The debtor days are in the range of 65-70 days. Around 70% of the debtors are backed by LC's mitigating the credit risk on debtors to a large extent.

The average cash credit utilization of the company was at 89% during the past 12 months ending on March 2018. The company has also been resorting to term loans from NBFC's to meet its working capital needs.

Customer concentration

Though JPM caters to reputed clientele, there exists customer concentration risk as top ten customers accounted for around 77% of the total sales of the company in FY18.

Intense competition in the casual wear segment

India is the largest producer of cotton in the world accounting for about 26% of the world cotton production. It is also one of the largest producers of polyester yarns. With such abundant availability of raw material, it is the second largest producer of textiles and garments in the world. Unorganized sector accounts for about 80% of the industry due to low entry barriers resulting in high competition.



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Analytical Approach & Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

JPM Exports Pvt Ltd, incorporated on August 19, 2009, is manufacturer of industrial work wear and casual wear in India, based out of Kolkata. The company is a Government registered Star Export House. The company also has international accreditations and certifications like ISO 9001:2015, SA 8000:2014 and Oeko Tex Standard 100 for its industrial garments, which helps them in getting export orders (around 45% of the sales of the company are exports).

JPM is promoted by Mr. Dilip Madhogaria who has over 20 years of experience in the industry. His nephew, Mr. Pankaj Madhogaria is Executive Director in the company since its inception. The company initially manufactured goods in their own factory on piece rate basis. In 2013, the company also commenced outsourcing of manufacturing operations in Bangladesh to benefit from the duty free exports to Europe from Bangladesh coupled with the advantages arising due to cheap labour cost.

Since FY16, the company shifted to an assembly line production process on lease basis in Barasat, West Bengal on a production area of 60,000 sq. ft. As on March 31, 2018, JPM has around 700 machines with an estimated annual production capacity of 30,55,200 pieces per annum. The Barasat facility is operating at 72% of its production capacity in FY18. Reportedly, JPM is amongst the biggest companies in east India to have assembly line production. From FY16 onwards it has also entered the formal/casual wear segment to diversify the product range and client base. It also manufactures ready-made garments for retailers on make to order basis.



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Financials

(Rs. Crores)

For the year ended / As on	31-03-2017	31-03-2018
	Audited	Provisional
Total Operating Income	63.13	73.79
EBITDA	7.91	10.81
PAT	1.60	1.87
Total Debt	42.69	48.72
Tangible Net Worth	10.71	19.98
Ratios		
a. EBITDA Margin	12.53	14.65
b. PAT Margin	2.53	2.53
c. Overall Gearing ratio	3.98	2.44

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Disclosure:

Rating History for last three years: N.A

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund Based Facilities	Long Term	50.00 (including proposed limits of Rs. 5 crores)	IVR BBB- /Stable Outlook	--	--	--

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.

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Annexure I: Details of Facility



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Long Term Fund Based Facilities- Cash Credit	-	-	-	50.00 (including proposed limits of Rs. 5 crores)	IVR BBB-/Stable outlook