Jagatjit Industries Limited

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12th October, 2021

The BSE Limited,
Corporate Relationship Department,
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers, Dalal Street,
Fort, Mumbai- 400 001
022-22723121, 2037, 2061

Sub: Revision in Credit Rating

Scrip Code No. 507155

Dear Sir,

In compliance with Regulation 30 (6) read with Part-A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform that Acuite Ratings & Research Limited has assigned the following ratings to the bank facilities of the Company viz. Jagatjit Industries Limited, as follows :-

Facilities	**Amount**	**Rating**	**Remarks**
Total Bank Facilities	200 Crores	ACUITE BB- / Outlook: Stable	Assigned

Earlier, ICRA Limited had assigned the [ICRA] B+/ Stable rating dated 03rd September, 2020 to the aforesaid facilities being availed by the Company.

We are enclosing herewith the rating assigned by Acuite Ratings & Research Limited.

This is for your information and records.

Thanking you,

Yours faithfully,
For JAGATJIT INDUSTRIES LIMITED

ROOPES
H KUMAR

Digitally signed by ROOPESH KUMAR
DN: c=IN, st=Uttar Pradesh, 2.5.4.20=25053c229e72d9f33bac02cb73ba3adc23afc38b9e6b77510e4fb454d980a3df, postalCode=243003, street=S.O RAMESH CHANDRA VERMA HOUSE NO 148, serialNumber=9d5a3cc70733f21fb015330ec0b96491a265e226941 51fed1e65008226849d10, o=Personal, cn=ROOPESH KUMAR
Date: 2021.10.12 16:05:12 +05'30'

Roopesh Kumar
Company Secretary & Compliance Officer
ICSI Membership No. F10058

Press Release

Jagatjit Industries Limited

October 11, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.200.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs.200.00 Cr. bank facilities of Jagatjit Industries Limited (JIL). The outlook is **'Stable'**.

Rationale for rating assignment

The rating assignment takes into account its established track record of the promoters in the AlcoBev Industry. The entity has a countrywide presence for sales of Indian Made Foreign Liquor (IMFL) and Country Liquor (CL) through franchise agreement and contract manufacturing. JIL has been selling IMFL under the well-known brand name of Aristocrat since 1968 and thus, has a legacy of over seven decades in this industry.

Further, the rating positively factors in the growing food business through their partnership with Hindustan Unilever (HUL) which is one of the major players in the FMCG industry. The rating also factors in the reputed tenant profile in its real estate business, which lends revenue visibility in near to medium term. Acuité takes into account DSRA mechanism present in its LRD term loan where the entity is maintaining an amount equivalent to 1 quarter of interest & principal repayment obligations in the form of fixed deposit. Further, improvement in business risk profile is also expected in the near term on the back venturing into new domestic geographies and revival of Extra Neutral Alcohol (ENA) business.

The rating, however, is constrained by the high tenant risk in lease rental business as the entire facility has been leased out to few tenants, though a strong tenant profile reduces the risk to some extent. Availability of new tenant for vacant space due the ongoing Covid-19 pandemic remains an important concern. Overall the operational and financial performance has been improving on Y-O-Y basis while currently remain average.

Moreover, the rating continues to be constrained by the highly regulated nature of the industry as well as the high level of duties and taxes that result in the vulnerability of sales volume and profitability to any adverse change in the duty structure.

About the Entity

Jagatjit Industries Limited (JIL) was incorporated in 1944 in the state of Punjab by Mr. L.P. Jaiswal under the name of Jagatjit Distilling and Allied Industries Limited, Subsequently the name as changed to the present one.

JIL is engaged in manufacturing, distributing and selling Indian Made Foreign Liquor (IMFL), Country Liquor (CL), Malted Milk Food (MMF) & Malt Extract (MEX) and managing of owned Real Estate assets.

JIL sells country liquor in Punjab, has 40 IMFL brands selling across 17 States and 2 Union Territories in domestic market, and 13 countries including U.S.A., Italy and U.A.E, to name a few. Further, JIL leases out owned 2.11 LPSF area to tenants and manufactures intermediates for products manufactured by HUL.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of JIL to arrive at this rating. Further, Acuité has also considered the presence of DSRA (Debt Service Reserve Account) equivalent to 1 quarter of interest & principal repayment obligations and escrow mechanism with a well-defined waterfall mechanism, as specified in the loan sanction letter while arriving at the rating.

Key Rating Drivers

Strengths

- **Established presence in the domestic markets supported by track record of operations of over seven decades**

JIL is managed by Mr. Ravi Manchanda (Managing Director), Mr. Deepankar Barat (President) along with Mr. Anil Vanjani (CEO & CFO) and Ms. Roshni Jaiswal (Promoter Family). Ms. Roshni Jaiswal belongs to a business family, which has been in the AlcoBev industry for over seven decades. The promoters are very resourceful and have supported the entity with the funding as and when required.

The seven decade track record of operations in the AlcoBev and Food industry has helped JIL establish presence with entities like HUL and a geographic presence across 17 States and 2 Union Territories in domestic market, and 13 countries including U.S.A., Italy and U.A.E, to name a few.

- **Improvement in the business risk profile supported by diversified revenue stream and the ongoing restructuring in the operations of the entity**

JIL has a diversified revenue stream from its three business segments – Liquor, Food Products and real estate, with Liquor and Food Products contributing significantly to the revenues.

Further, as a part of the restructuring exercise the entity has restarted its distillery operations in February 2020, has ventured into several new domestic geographies, rationalize several costs and invest in processes to improve the efficiency and enhance its manufacturing capacity.

This has led to significant improvement in JIL's operating income and its profitability indicators. JIL's operating income (excluding excise duty) stood at Rs.418.85 Cr. in FY2021 as against Rs.244.51 Cr. in FY2020. While the EBITDA margin stood at 7.94 percent in FY2021 as against (14.49) percent in FY2020, and PAT margin stood at 0.51 percent in FY2021 as against (19.99) percent in FY2020.

Acuité believes that promoters' experience in the liquor industry, their strong understanding of market dynamics, business diversification will continue to support the business risk profile over the medium term.

- **Debt servicing supported by debt service reserve account**

JIL maintains Debt Service Reserve Account (DSRA) as per the stipulation. DSRA is equivalent to to 1 quarter of interest & principal repayment obligations in the form of fixed deposits. Further, the terms of sanction for the term loan stipulate an escrow mechanism through which rent receipts are routed and used for payment as per the defined payment waterfall mechanism. Surplus cash flow after meeting tax expenses, operating expenses, debt-servicing obligation, can be utilised for accelerated debt repayment post lock-in period.

Weaknesses

- **Average financial risk profile**

JIL has an average financial risk profile marked by modest tangible net worth, coverage indicators and high gearing.

The tangible net worth of the entity stood at Rs.45.38 Cr. as on March 31, 2021 as against Rs.40.15 Cr. as on March 31, 2020 supported by accretion of profits to reserves.

JIL follows an aggressive financial policy reflected with its Gearing (Debt to Equity) of 4.74 times as on March 31, 2021 as against 5.23 times as on March 31, 2020.

The debt profile majorly comprises of LRD Term loan of more than Rs.200.00 Cr. as on March 31, 2020, with interest free Inter Corporate Deposits (ICD) and short term advances also forming part of the debt profile. Further, The TOL/TNW (Total Outside Liabilities to Total Net Worth) ratio stands significant too at 9.84 times as on March 31, 2021 as against 11.60 times as on March 31, 2020.

The coverage indicators stood modest marked by ICR (Interest Coverage Ratio) of 1.38 times and DSCR (Debt-Service Coverage Ratio) of 1.02 times in FY2021 while improving on Y-O-Y basis with an ICR of 0.24 times and DSCR of 0.03 times in FY2020.

Historically, JIL has resorted to fund infusion from group entities, asset sales of non-core in nature and cash flows from other business segments to maintain its capital structure service its financial commitments as and when required.

Acuité believes that the financial risk profile of JIL will remain average in near to medium term as the restructuring exercise is yet to bring stability to the operations of the entity and the overall financial risk profile.

- **Intensive working capital nature of operations**

JIL's working capital requirements remain intensive as visible in its significantly high creditors' payment period. The creditors' payment period vis-à-vis its debtors' collection period stands at 4.68 times indicating high working capital requirements.

The creditors' payment period stands at 108 days in FY2021 as against 262 days in FY2020, while its debtors' collection period stands at 23 days in FY2021 as against 80 days in FY2020. Further, its inventory holding period stands at 33 days in FY2021 as against 55 days in FY2020.

The GCA (Gross Current Asset) stands at 61 days in FY2021 as against 130 days in FY2020. Improvement in GCA can be attributed to improvement in the inventory holding period and debtors' collection period, while decline in cash and bank balances held to Rs.5.99 Cr. as on March 31, 2021 as against Rs.10.97 Cr. has also contributed in reduction of GCA.

Further, the entity has also availed fund-based working capital limits in September, 2021 to meet its working capital requirements.

- **Intense competition and highly regulated nature of liquor industry**

JIL revenues will continue to be impacted by increasing competition in the domestic IMFL market from global players as well as regional players. In addition, The Indian alcohol industry is highly regulated at almost every stage in the value chain. Furthermore, every state has its set of regulations with respect to distribution and retail channels, registration, taxation, and pricing of alcohol, ban on advertising, raw material availability, varying tax structures in different states pose challenges and restrict the industry's growth.

The industry is also administered through a strict license regime. Different licenses are mandated at stages of production and distribution, including separate ones for manufacturers, distributors, and retailers. Any adverse change in the government's license authorisation policy, such as discontinuation or caps on renewal of licenses or sharp hike in license fees, could affect the entity.

Liquidity position: Adequate

JIL has adequate liquidity position marked by adequate NCA (Net Cash Accruals) vis-à-vis its maturing debt obligations. The entity generated cash accruals of Rs.11.41 Cr. during the FY2021 improving on Y-O-Y basis from Rs.(39.22) in FY2020. While its maturing debt obligations stood at Rs.1.48 Cr. in FY2021 as against Rs.8.37 Cr. in FY2020.

The cash accruals of the entity are expected to remain around Rs.13.00-Rs.20.00 Cr. during 2021-23 period, while its repayment obligations are estimated to be around Rs.2.00 - Rs.8.00 Cr. annually in near term.

The entity maintains liquid investments in the form of FD and Term Deposits of Rs.20.43 Cr. as on March 31, 2021. The unencumbered cash and bank balances stood at Rs.5.99 crore as on March 31, 2020 as against Rs.10.97 crore as on March 31, 2021.

While the lease rentals vis-à-vis its monthly EMI's are expected to be lower in FY2022, the same is addressed by cash flows from other business segments and the presence of DSRA along with escrow mechanism with a well-defined waterfall mechanism providing an additional cushion to the liquidity.

Acuité believes that the liquidity of the entity is likely to remain adequate over the near to medium term combining all the segments of revenue.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.
- Delay in receipt of rentals from its tenants leading to cash flow mismatches.
- Delay in on boarding new tenants for the vacant spaces as envisaged by the entity.
- Delay in timely monetisation of assets held for sale for maintaining comfortable liquidity.
- Any unforeseen and unfavourable regulatory changes.
- Significant debt-funded capex.

Material Covenants

None

Outlook: Stable

Acuité believes that JIL will maintain a 'Stable' outlook in the near to medium term on account of its established track record of the entity supported by extensive experience of the promoters of the entity and its diversified revenue profile. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the entity registers substantial decline in revenues, or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity – Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	418.85	244.51
PAT	Rs. Cr.	2.12	(48.87)
PAT Margin	(%)	0.51	(19.99)
Total Debt/Tangible Net Worth	Times	4.74	5.23
PBDIT/Interest	Times	1.38	0.24

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm
- Real Estate Entities – https://www.acuite.in/view-rating-criteria-63.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
IndusInd Bank	Term Loan	December, 2018	11.75%	June, 2034	200.00	ACUITE BB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.