Jindal Worldwide Limited

August 05, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	360.45 (Reduced from Rs. 386.45 crore)	IVR A / Stable (IVR A with Stable Outlook)	IVR AA-/ Stable (IVR Double A Minus with Stable Outlook)	Downgraded	**Simple**
Short Term Facilities	159.00	IVR A1 (IVR A One)	IVR A1+ (IVR A One Plus)	Downgraded	**Simple**
Total	**519.45 (Rupees Five hundred and nineteen crore and forty-five lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has downgraded its rating assigned to the bank facilities of Jindal Worldwide Limited (JWL). The downgrade is on account of moderation in financial risk profile with decline in revenues and profitability in FY24 (refers period April 1 to March 31). The ratings continue to derive strength from experienced promoters in textile industry along with competent management, established market position and backward integration which supports operational profile of the company. The rating strengths are further constrained by working capital intensive nature of operations, susceptibility of profitability to raw material price volatility, cyclicality in denim industry and competitive textile industry and diversification of the group into new sectors.

The Stable Outlook reflects expected improvement in demand thereby improvement in revenues and profitability in the medium term; and continued benefit from its long and established track record along with the support of promoters.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in revenues and profitability, improving debt protection metrics and liquidity profile on a sustained basis.
- Sustained improvement in working capital cycle improving cash flows and liquidity of the company.

Downward Factors

- Deterioration in revenues and profitability, deteriorating debt protection metrics and liquidity profile of the company.
- Stretch in working capital cycle thereby impacting cash flows and liquidity profile of the company.
- Sharp changes in leverage impacting debt protection metrics.
- Increase in corporate guarantees to group companies.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters in textile industry along with competent management

JWL, the flagship company of the Ahmedabad based group, is currently led by Dr. Yamunadutt Agarwal, having a total experience of around four decades in the textile industry and Mr. Amit Agarwal having a total experience of 15 years in the textile industry. The promoters are supported by a management team consisting of experienced professionals.

Established market position

JWL is one of the leading denim manufacturers in the country with an annual installed capacity of ~140 million metre per annum. The company has facilities spread across the value chain over four manufacturing units in Ahmedabad, Gujarat, which include processes like spinning, weaving, processing, and finishing. It also manufactures cotton-based bottom-weight fabrics and printed shirting. The company has a well-established dealer network and benefits from the promoters' established presence and long-standing relationships with various partners across the value chain.

Backward integration supports operational profile

JWL has set up various group companies who do exclusive job work for JWL. This backward integration increases the weaving capacity available to JWL and takes care of a majority of its yarn requirements and thus helps achieve operational efficiencies. The capital expenditure undertaken in these companies by JWL is further eligible for incentives under different Government schemes for interest subsidy on term loan, capital subsidy on plant and machinery, and power subsidy which further support the company’s overall returns.

Key Rating Weaknesses

Decline in revenues and profitability in FY24

The company’s total operating income (TOI) decreased by ~12% to Rs. 1814.09 crore in FY24 from Rs.20270 crore in FY23. Business was impacted due to the recession prevailing in the USA and European Union, resulting in reduced spending, and hence lower demand for fabric. Latin American countries also experienced a slowdown in their economic activities. This led to lower export demand, which was reflected in reduced sales and consequently in profitability. Profitability was also impacted due to increase in logistics cost on account of ongoing war between Israel and Palestine. Therefore, the average sales realization was also impacted. However, from Q4FY24 the company’s revenue and profitability improved vis a vis Q3FY24 backed by increase in export orders and stabilization of cotton prices. For a period of around 7 months, there was high volatility in prices of cotton which soared to Rs.61,000 per candy thereby further impacting profitability. The absolute EBITDA and PAT reduced to Rs.183.25 crore and Rs.75.65 crore respectively in FY24 from Rs. 238.30 crore and Rs. 115.71 crore respectively in FY23.The EBITDA margin declined to 10.10% in FY24 vis a vis 11.51% in FY23. Accordingly, PAT margin declined to 4.17% in FY24 from 5.59% in FY23.

Moderation in financial risk profile

The total debt increased marginally to Rs. 883.08 crore as on March 31, 2024 (PY: Rs. 837.38 crore) and consists of term loans of Rs. 227.08 crore, working capital borrowings of Rs. 266.86 crore and bill discounting of Rs. 339.15 crore. Tangible net worth (TNW) stood at Rs. 704.94 crore as on March 31, 2024 (PY: Rs. 644.84 crore). The overall gearing ratio stood at 1.25x as on March 31, 2024, as against 1.30x times as on March 31, 2023. Total indebtedness of the company marked by TOL/TNW remained at 1.45x as on March 31, 2024, as against 1.59x times as on March 31, 2023. However, the company has also guaranteed debt of Rs. 598.30

crore of group companies, which further moderates the capital structure to over 2 times. The corporate guarantees are around 84.87% of the TNW. The debt protection metrices like interest coverage moderated due to lower profitability in FY24 but remained healthy at 3.71x in FY24 (PY: 4.60x). However, total debt to EBITDA moderated to at 4.82 times as on March 31, 2024 (PY: 3.51x), and total debt to GCA moderated to 8.10x as on March 31, 2024 (PY: 5.66x).

Working capital intensive nature of operations

JWL's operations are working capital intensive as the raw material availability is seasonal. The company has large working capital requirements which are reflected in an elongated conversion cycle of 147 days in FY24 (FY23: 121 days). The collection period has increased in FY24 to 104 days (FY23: 87 days) as JWL had to give higher credit period to its customers due to sluggish market conditions. Further, the average fund based working capital utilization remained high at ~80% for last 12 months ended May 2024. The company has high dependence on unsecured bill discounting, it increased to Rs. 339.15 crore in FY24 from Rs. 269.54 crore in FY23.

Susceptibility of profitability to raw material price volatility

Like other textile businesses, profitability of JWL is subject to fluctuations in the cost of cotton yarn, the primary raw material. The cotton yarn industry's profitability margins are highly correlated with fluctuations in raw cotton prices. The company does not have any long-term contracts with cotton suppliers with regards to either quantity or price. However, it has established long standing relationship with its suppliers. The cotton yarn industry is fragmented and there is significant competition among the players in the industry due to which their bargaining power is limited. This restricts the players from fully passing on the input cost increases to customers or retaining any benefits of lower input costs. As a result, the profitability margins of the company are susceptible to the volatility in raw cotton prices. In FY24 the EBITDA margin declined to 10.10% vis a vis 11.51% in FY23.

Cyclicality in denim industry and competitive textile industry

The Indian denim fabric industry is cyclical in nature and has witnessed major slowdown at least twice over the past two decades leading to piling up of excess inventory on the back of significant capacity addition by denim fabric manufacturers and consequent pricing pressure on sales realisation. Furthermore, textile is a cyclical industry and closely follows the macroeconomic business cycles. The prices of the raw materials and finished goods are also determined by global demand-supply scenario, hence, any shift in macroeconomic environment globally also impacts the domestic textile industry.

Diversification of group into new sectors

The group has through a group company, Aegios Polyfilms Private Limited forayed into Biaxially-oriented Polyethylene Terephthalate (BOPET) films and has set up a unit at Kathua, Jammu & Kashmir with an installed capacity of ~139 TPD along with PET chips plant having installed capacity of 300 TPD. The commercial operations of BOPET plant started in December 2023. Further, through Expede-Tech Research & Development Private Limited, the group is also diversifying into the chemical segment i.e. manufacturing of acetonitrile with an installed capacity of ~36 TPD. Acetonitrile chemical has a major application in pharmaceutical industry as a key solvent in the manufacturing of insulin and antibiotics. Further, through Jindal Specialty Chemicals India Pvt Ltd the group is also setting up a manufacturing unit with an installed capacity of ~10,000 TPA for Inulin which is a dietary fiber. The group through Jindal Mobilitric Pvt. Ltd. is also exploring the high growth Electric Vehicle (EV) industry and had acquired Earth Energy in May 2022, an EV startup. It is setting up a new manufacturing facility in Ahmedabad to supplement the existing facility. Going forward, time and cost overruns in execution of these projects, scaling up of operations and profitability will be critical.

Analytical Approach: Consolidated. List of companies considered for consolidation analysis is given at Annexure 4.

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Criteria on consolidation of companies

Liquidity – Adequate

JWL's liquidity profile is adequate supported by healthy cash accruals of Rs.108.98 crores on a consolidated basis in FY24. On a standalone basis, JWL is expected to generate healthy cash accruals in the range of Rs.126-142 crore during FY25-26, which is sufficient to repay its long-term debt obligations of Rs. 50.07 crore in FY25 and Rs. 37.65 crore in FY26. The group on a consolidated basis has available free cash and bank balances of Rs. 292 crore as on March 31, 2024. The average utilisation of fund based working capital limits stood at ~80% during the last 12 month ended May 2024, which provides limited liquidity buffer. There is no further debt funded capex plans in FY25, however, JWL has given corporate guarantees for the debt of its subsidiaries and group companies aggregating to Rs. 598.30 crore.

About the Company

Founded in 1986 by Dr. Yamunadutt Agrawal, Jindal Worldwide Ltd is a diversified and integrated textile fabrics and shirting manufacturer and one of the leading denim fabric manufacturers in India. JWL is the flagship company of Ahmedabad-based Jindal Group. It is a BSE and NSE listed company. JWL's product profile includes denim fabric, bottom weight fabrics, premium shirting and export centric home textile products. It is a government recognized export house with export presence across 20+ countries. It has an installed capacity for denim manufacturing of 134 million metres p.a., bottom weight fabrics: 35 million metres, premium shirting: 20 million metres, dyed yarn: 1200 metric tonnes and 1 million set for made ups. The facilities are spread over four manufacturing units in Ahmedabad.

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

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	2070.01	1814.09
EBITDA	238.30	183.25
PAT	115.71	75.65
Total Debt	837.38	883.08
Tangible Net Worth	644.84	704.94
EBITDA Margin (%)	11.51	10.10
PAT Margin (%)	5.59	4.17
Overall Gearing Ratio (x)	1.30	1.25
Interest Coverage (x)	4.60	3.71

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-25)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2024-25	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					(July 1, 2024)	(July 5, 2023)	Date (Month XX, 20XX)	Date (Month XX, 20XX)
1.	Term Loans	Long Term	110.45	IVR A/Stable	-	IVR AA-/Stable	-	-
2.	Cash Credit	Long Term	250.00	IVR A/Stable	-	IVR AA-/Stable	-	-
3.	Letter of Credit	Short Term	150.00	IVR A1	-	IVR A1+	-	-
4.	Credit Exposure Limit	Short Term	9.00	IVR A1	-	IVR A1+	-	-
5.	Proposed Commercial Paper	Short Term	0.00	-	Withdrawn	IVR A1+	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan II	-	-	-	December 2025	0.99	IVR A / Stable
Term Loan III	-	-	-	December 2025	1.09	IVR A / Stable
GECL-II	-	-	-	March 2027	5.21	IVR A / Stable
GECL-II Extension	-	-	-	April 2028	6.25	IVR A / Stable
GECL-II	-	-	-	2025-26	4.96	IVR A / Stable
GECL-2	-	-	-	2026-27	0.47	IVR A / Stable
Term Loan-1	-	-	-	September 25, 2024	0.48	IVR A / Stable
Term Loan-2	-	-	-	September 25, 2024	0.41	IVR A / Stable
Term Loan-3	-	-	-	June 25, 2025	0.39	IVR A / Stable
Term Loan-4	-	-	-	July 25, 2024	0.07	IVR A / Stable
Term Loan-5	-	-	-	September 25, 2024	0.67	IVR A / Stable
GECL-2	-	-	-	2026-27	8.13	IVR A / Stable

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
GECL-2 Extension	-	-	-	2027-28	6.85	IVR A / Stable
Term Loan	-	-	-	2028-29	14.38	IVR A / Stable
Term Loan	-	-	-	2024-25	3.27	IVR A / Stable
GECL-2	-	-	-	2025-26	4.61	IVR A / Stable
GECL-2 Extension	-	-	-	2027-28	6.19	IVR A / Stable
GECL-2	-	-	-	March 2029	5.00	IVR A / Stable
GECL-2 Extension	-	-	-	March 2028	4.17	IVR A / Stable
GECL-2 Extension	-	-	-	2027-28	3.24	IVR A / Stable
Term Loan	-	-	-	2026-27	9.79	IVR A / Stable
GECL-II	-	-	-	2026-27	5.24	IVR A / Stable
GECL-II Extension	-	-	-	2027-28	5.28	IVR A / Stable
Term Loan-1	-	-	-	March 2025	5.81	IVR A / Stable
Term Loan-2	-	-	-	June 2027	7.50	IVR A / Stable
Cash Credit	-	-	-	-	250.00	IVR A / Stable
Letter of Credit	-	-	-	-	150.00	IVR A1
Credit Exposure Limit	-	-	-	-	9.00	IVR A1

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Jindal-Worldwide-aug24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis:

Sr. No.	Name of company	Extent of consolidation (%)
1.	Planet Spinning Mills Private Limited	100
2.	Goodcore Spintex Private Limited	100
3.	Jindal Mobilitric Private Limited	100
4.	Kashyap Tele-Medicines Limited	100

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.