



Press Release

J P Sortex Private Limited

July 01, 2020

Ratings

| Instrument/Facility | Amount (Rs. Crore) | Ratings | Rating Action |
|---------------------------------|-----------------------|--|------------------|
| Long term - Bank Facilities | 37.00 | IVR BBB-/Stable Outlook (Pronounced as IVR Triple B Minus with Stable Outlook) | Assigned |
| Short Term - Bank Facilities | (29.00) | IVR A3 (IVR A Three). | Assigned |
| | (12.00) | | |
| Total | 37.00 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to J P Sortex Private Limited (JPSPL) derives comfort from its experienced promoters and management team with its remarkable presence in rice milling and trading sector along with its established long standing business relationships with the customer and supplier. The rating also factors in its Stable financial performance with a healthy order book position indicating moderate revenue visibility, comfortable capital structure along with adequate coverage metrics. Further, capital structure is expected to remain comfortable as the company is not having any debt avilment plan in medium term. These rating strengths are partially offset by stable revenues in last two fiscal, working capital intensive operations marked by high inventory holding period, exposure to intense competition in domestic and export market, exposure to agro climatic risks and government regulations along with exposure to foreign exchange fluctuations.

Key Rating Sensitivities

Upward factors

- ✓ Significant improvement in profitability metrics with consistent growth in scale of business thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectations.
- ✓ Continuous improvement in the capital structure

Downward factors



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- ✓ Dip in operating income and/or profitability impacting the debt coverage indicators and liquidity.
- ✓ Further elongation of the operating cycle leading to weakening in liquidity position.
- ✓ Adverse government regulations.
- ✓ Withdrawal of unsecured loans from the business of Rs.33.00 Crore on combined basis.

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced and resourceful promoters and long track record of operations Mr. Raman Garg and Rahul Garg are the promoters of the company. Both of them are having combined experience of more than 20 years in rice milling business. To fund various business requirement of the group in the past, regular funds have been infused by the promoters and related parties in the form of unsecured loans. The promoters have long standing presence in the rice industry which has helped them to build established relationship with both customers and suppliers. On the back of long standing experience of the promoters, the company enjoys established and healthy relationships with its customers and suppliers, which enabled the company to receive repeat orders, with a strong order book position. The company is likely to benefit from the extensive experience of its promoters going forward.

Locational advantage

The Group includes Chhabeela Energy Foods Private Limited (CEFPL) and JP Sortex Pvt Ltd (JPSPL) is engaged in milling and processing of rice. Presence of the company in the rice industry for close to two decade and favourable location of the plant in close proximity to paddy growers in Firozpur, Punjab has led to development of long-term relationships with the suppliers and therefore easy procurement of raw materials. The presence in these regions gives a competitive advantage in terms of easy availability of paddy, lower freight, and favourable pricing terms. The group is also having a warehousing facility in Delhi and a sales office in Dubai.

Established market position with well known brand

The company is one of the leading suppliers of rice. . Further, J P Sortex is involved in export (45% - 50% revenue contributed through overseas customers from UAE, Dubai,



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Saudi Arabia, Bahrain, Latin America etc) and Chhabeela Energy Foods is on domestic side only. However, 90% of its domestic customers are exporters. Therefore, directly or indirectly 90% of rice get consumed by overseas consumers. Over the years of its presence the company has developed various brands in the market, under its own brand names “Rice ‘o’ India”, “Rice ‘o’ Punjab”, “Chhabella”, “Five Horses”, “JPA”, “65” and “Shabeelah”.

Stable financial performance with a healthy order book position indicating moderate revenue visibility

Despite decrease in sales realization value as against increased sales volume, JPSPL and CEFPL have managed to scale up its operations where JPSPL by ~2.16% to Rs.111.66 Cr. in FY20 while of CEFPL increased by ~1% to Rs.239.30 Cr. The total debt to GCA ratio of the group continued to improve at 8.12x, as on March 31, 2020 (PY: 11.19x). Also, the interest coverage ratio of CEFPL improved to 2.24x in FY20 (PY: 1.95x) while of JPSPL improved to 3.06x in FY20 (PY: 1.85x).

With marginal growth in total operating income, the group has witnessed a marginal decline in its absolute EBITDA and EBITDA margin, due to lower sales realization as against increased sales volume. The EBITDA margin of the group stood at 4.19% in FY20 as compared to 4.77% in FY19. Despite deterioration in operating margins, PAT margin of the group has improved from 0.92% in FY19 to 1.11% in FY20, on the back of decreases interest expenses leads to earned healthy cash accrual of Rs.6.89 in FY20 as against Rs.6.67 crore in FY19. Furthermore, the group has achieved total operating revenue of ~Rs. 60.79 crore in 2M FY21 as against ~Rs.53.05 crore in 2M FY20. Infomerics expects improvement in sales in FY21 as compared to the last fiscal. However, the group's unexecuted order book stood at ~Rs.200 crore and further negotiation for orders of Rs. 125 crore is in advance stages as on June 15, 2020 which is expected to be executed in the current fiscal. Presence of a healthy order book imparts comfort and indicates revenue visibility for the company.

Comfortable capital structure

Capital structure comprised of only working capital limits and significant amount of unsecured loans infused by promoters and its group. Infomerics has considered the amount



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of unsecured loans as quasi equity. As on March 31, 2020, Capital structure of the group remains comfortable marked by comfortable gearing ratio at 0.52x and TOL/ ANW at 0.63x. On standalone basis, gearing ratio of JPSPL and CEFPL remain comfortable at 1.51times and 0.35times respectively with comfortable TOL/ ANW of 1.65 times and 0.43 times respectively on 31st March, 2020. Comfortable gearing of the company indicates buffer for the additional borrowing to meet working capital requirements.

Key Weaknesses

Exposure to intense competition in domestic and export market

The rice milling industry and trading of rice in India is characterized by stiff competition amid presence of many organized and unorganized players. Low entry barriers coupled with low technological requirement and very less product differentiation makes the rice milling operations vulnerable and limits the pricing flexibility.

Exposure to agro climatic risks and government regulations

Paddy being an agro-commodity is susceptible to agro-climatic risks. Further, rice export segment is highly influenced by various government regulations in India and in exporting countries.

Exposure to foreign exchange fluctuations

The group derives a major portion of its income from exports. However the raw material is being procured domestically. For the purpose of hedging, the company cover foreign currency fluctuation by way of booking of future contract over NSE through one of the broking firm named Shri Parasram Holdings Pvt Ltd. Furthermore, being in export segment and dollar being is appreciated over period of time along with entering into the future contract, risk of fluctuation is mitigated.

Exposure to changes in trade policies

The company is exposed to changes in the trade policies of key importing countries, which can impact the export revenues. The tightening of pesticide residue parameters and other quality check parameters might lead to a decline in exports.

Working capital intensive nature of operations



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The operations of the group are working capital intensive as reflected in operating cycle of 102 days in the fiscal ending, 2020 as against 130 days in previous fiscal. On standalone basis, The operating cycle of CEFPL stood elongated at ~86 days as on March 31, 2020 (PY: ~110 days) on account of elongated inventory period and the operating cycle of JPSPL of also stood elongated at ~136 days, as on March 31, 2020 (PY: ~173 days). Being an agro commodity, the procurement of paddy for the entire year is seasonal and happens during the months of October-December which increases the working capital requirement. Also basmati requires ageing to attain desired quality. The average cash credit utilization of the company during the past 12 months ending April, 2020 remained on the favourable side at ~48%. Efficient management of working capital remains a key monitor able for the company/group.

Analytical Approach: Combined. The financial and business risk profiles of JP Sortex Private Limited and Chhabeela Energy Foods Private Limited have been combined as both the companies (together referred to as 'Group') are in the same line of business, have the same promoters and a common management team. Details are given in annexure – II.

Applicable Criteria:

Rating Methodology for Manufacturing/Trading Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the group is adequate marked by its adequate expected gross cash accruals subject to achieving of its projected profitability against its modest interest payment obligations. Further, the group has working capital intensive nature of business leading to modest requirement of working capital limits. The group has reported working capital utilization reported at close to 50% for past 12 months ended at April -2020, indicating buffer capacity to meet incremental working capital requirement. Also, the Company is expected to generate adequate cash accruals as against its minimal repayment obligations over the medium term. Further, the group's comfortable capital structure also imparts comfort for additional borrowing to support the business.

About the Company



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JP Sortex Private Limited (JPSPL) started its operations in 1999 and is managed by Mr. Raman Garg and Mr. Rahul Garg. The company is engaged in the processing of paddy to rice and also sells its by-products like bardana, bran, husk, etc.

The group primarily comprises of two companies- JPSPL and Chhabeela Eenergy Foods Private Limited (CEFPL. CEFPL started its operations in 1999. The group is engaged in the processing of paddy to rice and also sells its by-products like bardana, bran, husk, etc, at its two manufacturing facilities in Ferozepur, Punjab with an installed capacity of processing 8TPH (tonnes per hour; under JPSPL) and 15TPH (under CEFPL). The group is also having a warehousing facility in Delhi and a sales office in Dubai. The group sells majority of its product under its own brand names "Rice 'o' India", "Rice 'o' Punjab", "Chhabella", "Five Horses", "JPA", "65" and "Shabeelah".

Financials (Combined Basis)

| For the year ended / As on* | (Rs. crore) | |
|-----------------------------|-------------------------|-----------------------------|
| | 31-03-2019 (Audited) | 31-03-2020 (Provisional) |
| Total Operating Income | 347.21 | 350.86 |
| EBITDA | 16.55 | 14.71 |
| PAT | 3.20 | 3.89 |
| Total debt | 74.65 | 55.95 |
| Tangible Networth (Adj.) | 101.22 | 105.12 |
| PAT margins (%) | 0.92 | 1.11 |
| EBITDA margins (%) | 4.77 | 4.19 |
| Overall Gearing Ratio (x) | 0.74 | 0.53 |

*classification as per Infomerics standard

Status of non-cooperation with previous CRA: CARE and ICRA rating have classified the company under Issuer Not Cooperating in their press Release dated on February 07, 2020 and December 13, 2019 respectively.

Any other information: N.A

Rating History for last three years:

| S. No. | Name of Instrument/ Facilities | Current Rating (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- | Date(s) & Rating(s) assigned |



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| | | | | | | 19 | in 2017-18 |
|---|--|------------|---------|--------------------------|---|----|------------|
| 1 | Long term Fund based Facilities– Cash Credit | Long Term | 37.00 | IVR BBB- /Stable Outlook | - | - | - |
| 2 | Short Term Fund based Facilities - PC and FOBP/ FOBNLC/FOUBNLC | Short Term | (29.00) | IVR A3 | - | - | - |
| | | | (12.00) | | - | - | - |

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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to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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–Cash Credit | - | - | - | 37.00 | IVR BBB-/Stable Outlook |
| Short Term Bank Facilities) - PC | - | - | - | (29.00) | IVR A3 |
| Short Term Bank Facilities) - FOBP/ FOBNLC/FOUBNLC | | | | (12.00) | |

Annexure 2: List of companies considered for combined analysis

| Sl. No. | Name of the company | Relation | Consideration |
|---------|--|------------------|--------------------|
| 1. | JP Sortex Private Limited (JPSPL) | Common Promoters | Full consideration |
| 2. | Chhabeela Energy Foods Private Limited (CEFPL) | | Full consideration |