March 24, 2023

Jayant Agro-Organics Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	12.00	-	-
Short term - Fund based	282.10	262.10	[ICRA]A2+; reaffirmed
Short term - Non-fund based	7.50	9.50	[ICRA]A2+; reaffirmed
Long term/Short term – Unallocated	48.40	78.40	[ICRA]A-(Stable)/ [ICRA]A2+; raffirmed & outlook revised to Stable from Positive
Total	350.00	350.00	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Jayant Agro-Organics Limited (JAPL) and three of its Group concerns - Ihsedu Agro Chem Private Limited (IAPL), Ihsedu Coreagri Services Private Limited (ICSPL, fellow subsidiary) and Ihsedu Itoh Green Chemicals Private Limited (IIGCMPL, fellow subsidiary) - and JAOL's share in the joint venture (JV) company, Vithal Castor Polyols Private Limited (VCPPL), owing to the substantial operational, managerial and financial linkages among them. These entities are collectively referred to as the Jayant Group or the Group.

The revision in the outlook to Stable from Positive considers the moderation in profitability during 9M FY2023 due to a sharp increase in raw material prices and subdued demand for castor derivatives, which partly impacted the company's ability to pass on the cost escalations and resulted in lower profits from value-added products. The subdued demand was partly on account of customers in Europe deferring orders due to the disruption caused by Russia-Ukraine conflict and in anticipation of a moderation in prices. Going forward, the demand is expected to improve gradually with the depletion in the pipeline stock maintained by customers and the moderation in prices. The pace of recovery in demand and profitability will be monitored.

The ratings consider the experience of the promoters of over five decades in the castor oil industry and the Jayant Group's leadership position in the castor oil and castor oil-based derivatives business along with the Group's diversified product portfolio catering to several end-user industries. The ratings also consider the Group's strategic tie-ups with a few reputed global chemical companies, which assure long-term volumes. The ratings also factor in the healthy net worth and comfortable capital structure of the Group at a consolidated level.

The ratings are, however, constrained by the exposure of the Group's profitability to the volatility in commodity prices and forex rates and the moderate profit margins due to high revenue share from the low-margin castor oil segment. The ratings are also constrained by the Group's moderately high working capital intensity due to the relatively high raw material inventory and the risks related to competition from substitute products.

The Stable outlook reflects ICRA's opinion that the credit profile of the consolidated entity will remain comfortable in the medium term, supported by its established track record in the castor oil and castor derivative segment, further aided by an expected growth in the share of the higher margin castor derivative segment, backed by the ongoing greenfield capex.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and leadership position in castor oil and castor oil-based derivatives business – The Jayant Group is a leading player in the country's castor oil and castor oil-based derivative products. The Group's promoters have over five decades of experience in the castor industry with second and third-generation promoters presently running the company's operations. The Group has established relationships with several major global chemical companies. Arkema holds a 24.9% stake in IAPL, while Itoh Oil Chemicals Co. Ltd. (IOCCL) holds a 40% stake in IIGCMPL. JAOL has a JV with Mitsui Chemicals and IOCCL to invest in VCPPL. Such arrangements ensure an uninterrupted supply of castor oil and its derivatives for these global players, and in turn result in assured sales for JAOL at a consolidated level.

Diversified product profile - While castor oil sales formed a significant proportion of the Group's overall sales, the contribution of castor derivatives sales has been gradually increasing. The Group has gradually added capacity to manufacture new derivative products and it now has a portfolio of ~80 derivative products used in various end-user industries, such as agriculture, electronics, cosmetics, food, lubricants and plastic, among others, out of which 20-25 products are major revenue drivers.

Healthy net worth and comfortable capital structure - JAOL's consolidated net worth remained healthy at Rs. 484.5 crore and the capital structure was comfortable, marked by a low gearing of 0.2 times as on September 30, 2022. The overall debt was Rs. 86.6 crore as on September 30, 2022, against Rs. 206.3 crore as on March 31, 2022, owing to the lower working capital debt. The coverage indicators were comfortable in FY2022 with interest cover at 9.7 times and TD/OPBIDTA at 1.0 times compared with 6.7 times and 1.7, respectively, in FY2021. ICRA takes note of the company's capex being implemented, which are mainly being funded through internal accruals and the capital structure and coverage indicators are expected to remain comfortable.

Credit challenges

Profitability exposed to volatility in commodity prices and forex rates - Being a commodity business, any significant adverse fluctuations in the prices of castor seeds/castor oil or volatility in forex rates can impact the Group's profitability. However, the risk is partly mitigated by changes in the inventory holding policy in recent years with procurement backed by orders and hedging for forex volatility. The profit margins also remain moderate due to the high share of revenue from the low-margin castor oil segment.

Moderately high working capital intensity - The working capital intensity of JAOL at a consolidated level had remained moderately high in the range of 25-30% during FY2017-FY2019 due to high inventory levels. While the working capital intensity moderated in FY2020 due to the Covid-19 pandemic's impact and some changes in the inventory holding policy, it increased to 20.5% in FY2021 and was 17.6% in FY2022.

Competition from substitute products - Although the Group has a diversified product portfolio, some of the castor oil-based derivative products face competition from crude-based derivative products. This exposes the Group to risks related to product substitution.

Liquidity position: Adequate

At a consolidated level, JAOL's liquidity position remains adequate with annual fund flow from operations of Rs 108.9 crore in FY2022 and Rs 38.9 crore in H1 FY2023. Also, at a consolidated level, JAOL has a sanctioned working capital facility of Rs. 654.64 crore as on date, the average utilisation of which remained moderate at around 35% of the drawing power in the 12-month period ended December 2022. The company has modest repayment obligations of Rs. 2.12 crore in FY2024 and Rs. 2.33 crore in FY2025. At present, it is undertaking a capex of Rs 40-45 crore spread over FY2023 and FY2024 for a greenfield project, which is being funded through internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a sustained healthy scale of operations and profitability at a consolidated level while maintaining healthy credit metrics.

Negative factors – Pressure on the ratings could arise if there is any significant deterioration in the scale of operations and profits at a consolidated level on a sustained basis. A higher-than expected debt-funded capex or a stretch in the working capital cycle which weakens the liquidity profile will also affect the ratings. Specific credit metrics for downgrade include interest cover falling below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology – Chemicals](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated view of Jayant Agro-Organics Limited with its subsidiary IAPL, IICSPL (fellow subsidiary) and IIGCMPL (fellow subsidiary) and a JV company of JAOL, VCPPL. As on March 31, 2021, the company had three subsidiaries and a joint venture company that are enlisted in the Annexure.

About the company

JAOL was set up in 1992 for the manufacture and marketing of castor oil and castor oil-based derivative products. JAOL was separated from the Jayant Oil Mills Group (set up in 1952), following the separation of the Udeshi and Kapadia promoter families in 2002, and since then the Udeshi family has taken exclusive control of JAOL.

Ihsedu Agrochem Private Limited (IAPL) was set up by JAOL as a backward-integration operation for seed crushing in 2002. In October 2013, Arkema acquired a 24.9% stake in IAPL. Ihsedu Coreagri Services Private Limited (ICSPL) was set up as a wholly-owned subsidiary of JAOL to manufacture hybrid seeds. Ihsedu Itoh Green Chemicals Private Limited (IIGCMPL) was incorporated in 2011, with JAOL holding a 90% equity stake, which reduced to 60%, post the purchase by IOCCL. In 2014, JAOL entered into a 50:40:10 JV agreement with Mitsui Chemicals and IOCCL to invest in Vithal Castor Polyols Private Limited (VCPPL).

Key financial indicators

JAOL Consolidated	FY2021	FY2022	9M FY2023
Operating income	1638.9	2589.3	2165.0
PAT	52.3	92.1	37.1
OPBDIT/OI	5.9%	5.9%	3.4%
PAT/OI	3.2%	3.6%	1.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	NA
Total debt/OPBDIT (times)	1.7	1.0	NA
Interest coverage (times)	6.7	9.7	6.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: **CRISIL Limited, vide its press release dated August 16, 2022, has disclosed that the ratings of Jayant Agro-Organics Limited has been migrated to [CRISIL]BB+(Stable)/A4+ [Issuer not cooperating; rating withdrawn]**

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Mar 24, 2023	May 10, 2022	May 07, 2021	Apr 08, 2021	-	-
1	Term loans	Long term	-	-	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-	-
2	Fund-based limits	Short-Term	262.1	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
3	Non-fund based limits	Short-Term	9.5	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	-
4	Unallocated limits	Long term/ Short-Term	78.4	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund based	Simple
Short term – Non-fund based	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short term – Fund-based limits	-	-	-	262.1	[ICRA]A2+
NA	Short term – Non-fund based limits	-	-	-	9.5	[ICRA]A2+
NA	Unallocated limits	-	-	-	78.4	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	JAOL Ownership	Consolidation Approach
Jayant Agro-Organics Limited	100.00% (rated entity)	Full Consolidation
Ihsedu Agrochem Private Limited	75.10%	Full Consolidation
Ihsedu Coreagri Services Private Limited	100.00%	Full Consolidation
Ihsedu Itoh Green Chemicals Private Limited	60.00%	Full Consolidation
Vithal Castor Polyols Private Limited	50.00% (joint venture)	Equity Method

Source:

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Sai Krishna
+91 22 6114 3400
sai.krishna@icraindia.com

Adarsh Sule
+91 88 1889 4310
adarsh.sule@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches