

March 31, 2023

Jabs International Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund / Non Fund-based Limits	88.00	88.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	88.00	88.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Jabs International Private Limited (Jabs/the company) factors in the extensive experience of the promoter and established track record of the company in spice exports, along with its different product offerings, covering varieties of spices and oilseeds, and a diversified global clientele. The ratings also continue to factor in the gradual improvement in the operating profit margin (OPM) as well as debt protection metrics in the current fiscal, supporting healthy liquidity and credit metrics. ICRA notes that Jabs' OPM took a hit in FY2021 and fell to 3.22% owing to a spike in ocean freight rates. However, with the gradual easing of container availability, especially from H2 FY2022, Jabs' OPM improved to ~4.0% in FY2022/ FY2023, supported by a combination of higher realisation and lower freight costs. Moreover, the ratings also factor in Jabs' stable revenue growth of 8.8% in FY2022 with an operating income of Rs. 843 crore despite muted demand of spices in the European and other western markets amid the pandemic. Further, supported by a recovery in spices' demand across the globe in the current fiscal, the company's operating income further improved to Rs. 833.5 crore in 11M FY2023 vis-à-vis ~Rs. 735 crore recorded during the same period last year, registering a healthy annual growth of 13%. ICRA notes that the company recently ventured into the high-margin organic spices segment. A meaningful materialisation of the company's growth plans in this new segment will drive the overall revenue growth over the medium term and further improve the profit margins, capitalisation and coverage indicators. Given the company's prudent capex plans and efficient working capital management, ICRA expects Jabs' overall borrowings to further reduce in FY2024, which can strengthen the leverage and coverage indicators in the next fiscal.

The ratings, however, remain constrained by the limited value addition involved in its operations, which along with intense competition in the spice processing industry, tempers its margins and pricing flexibility. Being a net exporter, the profitability is exposed to significant foreign exchange (forex) risks as well. The ratings also factor in the susceptibility of the company's revenues and profitability to commodity price fluctuations, which are influenced by external factors such as agro-climatic conditions, adverse changes in Government policies related to export/import of commodities, export incentives/duty structure, among others. Nonetheless, order-backed purchases, limited inventory holding period and the practice of hedging raw material price volatility through commodity derivatives partly mitigate the commodity price fluctuation risks to an extent.

The Stable outlook on the long-term rating of [ICRA]A- indicates that the company's credit metrics are expected to remain comfortable in FY2023/ FY2024, supported by its prudent capital allocation policy, efficient working capital management, gradually improving profit margins, and favorable revenue growth prospects.

Key rating drivers and their description

Credit strengths

Established track record and extensive experience of promoters in spice processing industry – Jabs has a track record of over two decades in the processing and export of spices as well as other agro-commodities. The key promoter, Mr. Bhaskar Shah,

has over three decades of experience in this field and is a prominent figure in the spices industry. His experience has been instrumental in building a large clientele in international markets and in forging relationships with domestic suppliers.

Diversified product portfolio with healthy revenue growth – Jabs has a diversified product portfolio of spices (whole and ground) such as cumin seeds, chilli and chilli powder, pepper, sesame seeds (natural and hulled), cardamom, coriander seeds, niger seeds, almond, fennel, celery, turmeric, nutmeg, clove, chickpeas etc, which partly protects it from large earnings volatility emanating from adverse agro-climatic conditions. Despite subdued demand of spices in the European and other western markets due to the pandemic and shortage of container availability, the company has been able to book an 8.8% annual growth in its operating income to Rs. 843.0 crore in FY2022 from Rs. 774.8 crore in FY2021. Further, supported by recovery in spices' demand across the globe in the current fiscal, the company's operating income improved further to Rs. 833.5 crore in 11M FY2023 vis-à-vis ~Rs. 735 crore recorded during the same period last year, representing a healthy annual growth of 13%.

Cumin seeds remain the largest revenue driver with 25-30% revenue contribution (23% in FY2022 and 6M FY2023), followed by hulled sesame and cardamom, contributing 12% and 9% to the total sales in FY2022, and 10% and 6% to the total sales, respectively in 6M FY2023. Income from other spices has been less than 10% of the company's total revenues, demonstrating a fairly diversified product profile. The company has ventured into the organic spices segment. A meaningful materialisation of the company's growth plans in this new segment will drive the overall revenue growth over the medium term and in turn further improve the profit margins, capitalisation and coverage indicators.

Diversified client base and a wide geographical footprint – Jabs exports to nearly 50 countries, with the top-10 geographies accounting for ~60-65% of its total sales during the last five fiscals. Its customer base has remained well diversified over the years, with ~20-25% contribution coming from the top 10 customers.

Healthy financial risk profile – Jabs' operating profit margin improved to 4.0% in FY2022 from 3.2% in FY2021 largely owing to better realisation on the back of price renegotiation amid a spike in the overseas freight charges across the globe. ICRA expects the company's operating profit margin to remain at ~4.0% in FY2023 as well. Jabs had an order book of three to four months before the freight price rally in FY2021. Therefore, the elevated freight charges were initially borne by the company as it continued to supply against existing orders, which were negotiated when freight rates were lower. Jabs' reliance on external borrowings is limited only to short-term working capital limits. Moreover, reduced dependence on short-term working capital limits due to efficient collection management has supported the company's liquidity and coverage metrics. Steady cash accruals have led to a healthy accretion to reserves across the years and thus, a strong net worth base relative to the external debt. Its capitalisation and debt coverage indicators remained healthy, as reflected by a gearing of 0.36 times and TOL/TNW¹ of 0.47 times as on March 31, 2022, and an interest coverage of 10.38 times in FY2022. Going forward, the company's financial credit metrics are expected to remain comfortable with limited capex and modest external borrowings.

Credit challenges

Modest profitability given limited value addition in spice processing business and intense competition – Historically, the company's operating profit margins (OPM) remained thin, given the limited value addition involved in the spice processing business. As a result of thin margins, the return on capital employed (RoCE) remained modest at 14.2% in FY2022. The spice processing and exports industry is highly competitive and fragmented in nature, given the limited complexity of work involved. This restricts the company's pricing power and hence profitability. While Jabs is an established player in the industry, it faces competition from other organised as well as unorganised players. However, the company has been accredited by various international agencies like the British Retail Consortium (BRC), United States Food and Drug Administration (USFDA) etc., which will help it forge long relationships with export customers, thereby mitigating the competition to an extent.

¹ Total Outside Liabilities / Tangible Net Worth

Susceptibility of revenues and profitability to commodity price fluctuations – Jabs’ operations remain vulnerable to the availability of agro commodities and volatility in their prices, which are influenced by external factors such as climatic conditions, import volumes, demand-supply mismatch etc. Additionally, any adverse change in the Government policies (related to exports/imports of certain commodities, export incentives/duty structure etc) may impact its revenue and profitability. Nevertheless, the company hedged the pricing of most of the raw materials in the commodities exchange market, which partly protects the profitability from commodity price risks. Further, the lead time for delivery may result in difference in the procurement and sales price. This apart, order-backed purchases and limited inventory mitigate the price fluctuation risk to an extent.

Exposure to forex fluctuations given significant exports – Jabs derives ~80-85% of its sales from exports, while imports accounted for ~19% of its total purchases in FY2022. Being a net exporter, it remains exposed to significant forex risks.

Liquidity position: Adequate

Jabs’ liquidity position is adequate, supported by healthy net cash accruals, sufficient buffer in working capital limits through prudent working capital management, no long-term debt, and absence of any large capacity expansion plan. The free cash flows (FCF) turned negative in FY2021 owing to a moderation in margins, and an increase in the working capital intensity. Nonetheless, improved profitability and efficient debtor collection helped the company report positive FCF in FY2022. ICRA expects the company’s FCF to remain positive in FY2023 as well. Jabs has total sanctioned working capital bank limits of Rs. 108.00 crore. The average utilisation of the working capital limits remained moderate at 51% during the last 15-month period ended in February 2023. The utilisation of working capital increases during January to July, which is the peak procurement season.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a significant growth in the scale of operations and an improvement in profitability, leading to improved debt coverage indicators and liquidity profile.

Negative factors – Pressure on the ratings could arise if there is a decline in revenues or a contraction in the profit margin, impacting the company’s debt coverage indicators and the liquidity profile. Specific credit metrics that might trigger ratings downgrade include the interest coverage remaining below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the issuer

About the company

Incorporated in 1997, Jabs International Private Limited is a processor and exporter of tropical and seed spices. It is promoted by Mr. Bhaskar Shah, who has an experience of more than three decades in spice exports. The company has six processing units, two each at Mundra and Unjha in Gujarat, and two in Navi Mumbai, Maharashtra (USFDA certified). Jabs is recognised

by the Government of India as a trading house and is ISO 9001:2008 and ISO 22000:2005 certified. It has four brands, namely Sunsmile, Farm Pearls, Season Pearls and My Taste.

Key financial indicators

ALGEPL	FY2021 (Audited)	FY2022 (Audited)	11M FY2023 (Provisional)
Operating income	774.8	843.0	833.5
PAT	16.4	23.3	-
OPBDIT/OI	3.2%	4.0%	-
PAT/OI	2.1%	2.8%	-
Total outside liabilities/Tangible net worth (times)	0.7	0.5	-
Total debt/OPBDIT (times)	3.1	2.0	-
Interest coverage (times)	16.7	10.4	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020		
				Mar 31, 2023	Dec 20, 2021	Sep 08, 2020	Aug 19, 2019	Jul 23, 2019	
1 Fund / Non-Fund Based Limits	Long Term / Short Term	88.00	82.9	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	
2 Pre Shipment Credit	Long Term / Short Term	-	-	-	-	-	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	
3 Post Shipment Credit	Long Term / Short Term	-	-	-	-	-	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	
4 Letter of Credit	Short Term	-	-	-	-	-	-	[ICRA]A2	

Source: Company data

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund / Non Fund-Based Limits	Simple

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	Fund / Non Fund Based Limits	NA	NA	NA	88.00	[ICRA]A-(Stable)/ [ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22-61693328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33-71501107
ritabrata.ghosh@icraindia.com

Brinda Goradia
+91 22-6169 3341
brinda.goradia@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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



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