

June 28, 2024

Jabs International Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term - Fund based/Non-Fund based - Pre-and post-shipment credit (EPC/PCFC/FBP/FBD/ EBR)	88.0	88.0	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	88.0	88.0	

*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. ICRA notes that Jabs' OPM fell drastically to 2.9% in FY2024 owing to competition from countries like China and Syria, higher freight expenses due to the Red Sea crisis, and volatility in domestic prices. The entity had booked trades at lower margins to honour long relationships with clients. Hence, despite lower OPM, Jabs had a significant revenue growth of 30% in FY2024 (provisional basis) with an operating income of Rs. 1,324.0 crore. A substantial materialisation of the company's expansion plans will drive the overall revenue growth over the medium term and further improve the profit margins, capitalisation and coverage indicators. ICRA expects Jabs' overall coverage ratios to improve in FY2025, which would strengthen the leverage and coverage indicators in the next fiscal, given the company's prudent capex plans and efficient working capital management.

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, and 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 FY2025, supported by its prudent capital allocation policy, efficient working capital management, gradually improving profit margins, and favourable 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 agricultural 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 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. The company has been able to report 30% annual growth in its operating income to Rs. 1,324.0 crore in FY2024 from Rs. 1,024.4 crore in FY2023, despite subdued demand of spices in the European and other western markets due to shortage of containers.

Cumin seeds remain the largest revenue driver with 44% revenue contribution (21% in FY2023), followed by hulled sesame and cardamom, contributing 12% and 7%, respectively, to the total sales in FY2024. Income from other spices has been less than 10% of the company's total revenues, demonstrating a diversified product profile. A meaningful materialisation of the company's growth plans 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 diversified over the years, with 20-25% contribution from the top 10 customers.

Comfortable financial risk profile – Jabs' operating profit margin deteriorated to 2.9% in FY2024 from 4.5% in FY2023 largely owing to competition from countries like China and Syria, higher freight expenses due to the Red Sea crisis, and volatility in domestic prices. The entity had booked trades at lower margins to honour long relationships with clients. ICRA expects the company's operating profit margin to moderate at 3.2% in FY2025 as well. Jabs' reliance on external borrowings is limited to short-term working capital limits. Steady cash accruals have led to a comfortable accretion to reserves over the years and thus, a strong net worth base relative to the external debt. Its capitalisation and debt coverage indicators remained healthy, reflected in a gearing of 0.5 times and TOL/TNW¹ of 0.6 times as on March 31, 2024, and an interest coverage of 5.5 times in FY2024. Going forward, the company's financial credit metrics are expected to remain comfortable with limited capex and modest external borrowings.

Credit challenges

Modest profitability and intense competition – Historically, the company's operating profit margins (OPM) have remained thin, given the limited value addition involved in the spice processing business. As a result, the return on capital employed (RoCE) remained modest at 11.2% in FY2024. 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.

Susceptibility of revenues and profitability to commodity price fluctuations – Jabs' operations remain vulnerable to the availability of agricultural 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.

¹ Total Outside Liabilities / Tangible Net Worth

Exposure to forex fluctuations – Jabs derives ~70% of its sales from exports, while imports accounted for 15-20% of its total purchases in FY2024. Being a net exporter, it remains exposed to significant forex risks.

Exposed to agro-climatic and regulatory risks in the food industry – Jabs remains exposed to the agro-climatic conditions of the countries from which it procures raw materials, as well as the regulatory environment related to procurement or pricing of agricultural commodities. In case of high prices, the Government restrictions limit the company's ability to pass on the entire raw material price hike to the customers. The food industry is subject to intense regulations. As the company is present in the food sector, its quality and reputation-related risks are high. Any rapid change in regulations could have a large impact on the players operating in the industry.

Liquidity position: Adequate

Jabs' liquidity position is adequate, supported by modest net cash accruals (expected in the range of Rs. 28.0-32.0 crore in FY2025), sufficient buffer in working capital limits through prudent working capital management, no long-term debt, and absence of any large capacity expansion plans. Jabs has total sanctioned working capital bank limits of Rs. 178.00 crore. The average utilisation of the working capital limits remained moderate at 72% during FY2024. The utilisation of working capital increases during March to May, 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 significant decline in revenues or a material contraction in the profit margins, impacting the company's debt coverage indicators and the liquidity profile on a sustained basis. A specific credit metric that might trigger ratings downgrade is if interest coverage remains 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	The ratings are based on the company's standalone financial profile

About the company

Jabs International Private Limited, incorporated in 1997, 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 (audited)

Jabs International Private Limited	FY2022	FY2023	FY2024*
Operating income	844.2	1024.4	1324.0
PAT	23.3	30.9	-
OPBDIT/OI	4.5%	4.5%	-
PAT/OI	2.8%	3.0%	-
Total outside liabilities/Tangible net worth (times)	0.5	0.5	-
Total debt/OPBDIT (times)	1.8	2.2	-
Interest coverage (times)	6.1	8.6	-

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore * Provisional data on best effort basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	-	Mar 31, 2023	Dec 20, 2021
1 Fund based/Non-fund based – Pre and post-shipment credit (EPC/PCFC/FBP/FBD/EBR)	Long-term/Short-term	88.0	-	[ICRA]A-(Stable)/[ICRA]A2+	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term – Fund Based/Non-Fund Based – Pre- and post-shipment credit (EPC/PCFC/FBP/FBD/ EBR)	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	Long-term/ Short-term – Fund Based/Non-Fund Based – Pre-and post-shipment credit (EPC/PCFC/FBP/FBD/ EBR)	NA	8.5%	NA	88.0	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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.

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Branches



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