

## Jayshree PU Tech

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	205.00	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	295.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>500.00</b> <b>(Five Hundred Million Only)</b>		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Jayshree PU Tech (JSPU).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JSPU are constrained by its elongated operating cycle, raw material price volatility risk, vulnerability to changes in fashion trends and obsolescence risk associated with inventory. The ratings also factor in JSPU's presence in competitive nature of industry and foreign exchange fluctuation risk associated with procurement of raw materials.

The ratings, however, derive strength from experienced promoters & established track record of operations, established brand presence & distribution network and financial risk profile marked by moderate capital structure and healthy profitability margins.

*Going forward, the ability of the company to sustain growth in the scale of operations while managing its working capital requirement and maintaining profitability margins will remain the key rating sensitivities.*

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### Working capital intensive nature of operations and elongated operating cycle

The operating cycle of the company is highly elongated at 303 days in FY21 (audited, refers to the twelve-month period ended mid-July 2021). Being in a highly competitive industry, the company has to extend generous credit period to its dealers leading to a high average collection period at around 84 days during FY21 which, however, improved from 108 days in FY20. The company is required to maintain adequate inventory of raw material for smooth running of its production processes. Furthermore, since the sale of shoes is seasonal in nature it is critical for the company to maintain the adequate levels of inventory. This resulted in average inventory holding days of around 310 days in FY21 which decreased from 339 days in FY20. Also, company imports its raw materials through Letter of Credit at sight or usance depending upon credit terms of the suppliers. A highly elongated operating cycle leads to reliance of the company on the bank finance for meeting its working capital needs.

##### Foreign exchange fluctuation risk and raw material volatility risk

JSPU mainly imports raw materials from India and China. The company's import from Chinese suppliers is invoiced in USD which stood at around 35% of the total raw materials purchased during the last two financial years (FY20-FY21). The product of the company is completely sold in the domestic market. With initial cash outlay for procurement in foreign currency and sales realization in domestic currency, the company is exposed to the fluctuation in foreign currency exchange

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications

rates. Since, the company does not hedge its foreign exchange exposure, JSPU is exposed to any sharp depreciation in the value of Nepalese rupee against USD which may impact its cash accruals.

Furthermore, raw material constituted around 90% of the total cost of production for the last 3 years (FY19-FY21). The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of Laminated Fab. (Lykra), Rixin and Polyurethane system which constitute a major component of the raw material. Any adverse movement in raw materials price without corresponding movement in finished goods price is likely to affect the profitability of the company.

#### **Vulnerability to changes in fashion trends and obsolescence risk associated with inventory**

The footwear segment is driven by fashion trends and its target segment's aspirations. Therefore, their association with brands may change within a short span of time. Thus, manufacturers need to constantly innovate and adapt to the changing preferences of the target segment with its team of in-house designers who work on the upcoming season's collections and is expected to have the ability to adapt to the changing market trends. Furthermore, companies need to manage their inventories according to fashion and changing trends. At times, such fashion trends are short-lived, resulting in risk of inventory becoming obsolete if it does not meet the taste and preferences of the customers. This could adversely impact the financial profiles of entities operating in the business segment.

#### **Competitive nature of industry**

The footwear industry is intensely competitive and fragmented marked by the presence of both larger players with established brand presence and numerous smaller players in the unorganized segment. The players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of footwear industry is considered cyclical as it depends upon the seasonal demand from the market.

#### **Exposure to volatile interest rate**

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remain quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

#### **Key Rating Strengths**

##### **Experienced promoters and established track record of operations**

JSPU is a partnership business and is managed under the overall guidance of its two-partners - Mr. Anuj Poddar and Mr. Rajesh Kumar Agrawal. Anuj Poddar, is also the Director of the Jayshree Company Private Limited (CARE NP BB+/A4+, manufacturing of PVC slippers) and Jayshree Polymers Private Limited (manufacturing of PU, PVC and sports footwear), with more than two decades of experience in related business. Mr. Rajesh Kumar Agrawal, has business experience of over 15 years in footwear industry.

##### **Established brand presence and established distribution network**

JSPU sells its products under the brand name "Magic", which is a long established name in the footwear segment in the domestic market. Additionally, the company has an established marketing and distribution network which comprises of 25 dealers. JSPU has a strong marketing network across all major cities in the country which provides a ready market for its products.

## Financial risk profile marked by moderately leveraged capital structure and growth in revenues and profitability in FY21

Total operating income (TOI) of the company grew 39% year-on-year to Rs. 552 Mn during FY21. Increased sales volume coupled with improved price realization resulted in significant improvement in the company's profitability during FY21. PBILDT margin improved by 989 bps to 26.36% during FY21. The company has large product portfolio and profitability margins of the company are directly associated with quality and designing of product. Better designed and superior quality products normally fetch better margins. Backed by higher sales and improved profitability, gross cash accruals of JSPU increased to Rs.109 Mn in FY21 from Rs. 40 Mn in FY20. Also, PAT margin of the company increased to 16.99% in FY21 from net losses in FY20. Total gearing of the company stood moderate at around 2.16x at the end of FY21, improving from 4.18x at the end of FY20, mainly on account of accretion of profits to the reserves leading to improved network. Backed by improved profitability, JSPU's interest coverage ratio improved to 6.32x in FY21 from 2.07x in FY20. Similarly, JSPU's total debt/GCA improved to 4.27x in FY21 from 12.74x in FY20.

## Domestic footwear brands dominate market

Nepali footwear products have been dominating the domestic market in the recent years. A strong value for money proposition of the made-in-Nepal footwear products coupled with appealing design has helped the locally manufacturing companies capture around 42% of the footwear market, from an import dominated industry in prior years.

## About the Company

Jayshree PU Tech (JSPU) was incorporated on November 08, 2009. The company manufactures slippers, sandals and shoes under its brand name "Magic". As on mid-July 2021, JSPU had total licensed capacity of 0.90 Mn pairs per annum. The manufacturing facility is located in Biratnagar, Nepal.

## Financial Performance

(Rs. Million)

For the Period	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	390	397	552
PBILDT Margin (%)	16.47	20.87	26.36
Overall Gearing (times)	5.27	4.18	2.16
Interest Coverage (times)	1.73	2.07	6.32
Current Ratio (times)	1.52	1.56	1.81
Total Debt/GCA (times)	21.20	12.74	4.27

A: Audited

## Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	205.00	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	295.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>500.00</b>	

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