# Jayshree Company Private Limited

**Ratings**

| Facility | Amount (Rs. In Million) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 67.22 | CARE-NP BB+ [Double B Plus] | Reaffirmed |
| Short Term Bank Facilities | 532.78 | CARE-NP A4+ [A Four Plus] | Reaffirmed |
| Total Facilities | 600.00 (Rupees Six Hundred Million) | | |

*Details of Facilities/Instruments in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and the rating of 'CARE-NP A4+' assigned to the short term bank facilities of Jayshree Company Private Limited (JSCP).

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of ratings assigned to the bank facilities of JSCP continues to be constrained by its fluctuating scale of operations, elongated operating cycle, foreign exchange fluctuation risk and raw material price volatility risk, vulnerability to changes in fashion trends and obsolescence risk associated with inventory, and competitive nature of footwear industry. The ratings are also constrained by the project stabilization risk related to the added capacity.

The ratings, however, continue to derive strength from experienced promoters & established track record of operations, established brand presence & distribution network and its moderate financial profile, and domestic footwear brands dominate market.

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

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

**Fluctuating scale of operations**

JSCP's total operating income (TOI) has been fluctuating over the past four years. The company's TOI rebounded in FY21 (Audited, refers to the twelve-month period ended mid-July 2021) with 15.87% year on year (yoy) growth to Rs. 667 Mn after declining 8.69% yoy during FY20. The improvement in TOI was mainly on account of improved demand scenario after relaxation in the government imposed lockdowns. Sales had declined during FY20 amid the first wave of the pandemic impacting operations of the company during the fourth quarter of FY20. During H1FY22 (Unaudited, refers to the six-month period ended mid-January 2022), the company's sales have been sluggish with total revenue of Rs. 296 Mn. Although JSCP has been continuously increasing its production capacity, with total annual capacity increased from 9 Mn pairs at the end of FY19 to 12 Mn pairs at the end of H1FY22, the company's scale of operations has not grown proportionately as envisaged. The ability of the company to profitably scale up the operations with optimal utilization of the installed capacity will be critical from credit perspective.

**Elongated operating cycle**

The operating cycle of the company was elongated at 148 days in FY21 compared to 111 days in FY20. Being a highly competitive business, the company has to extend credit period to its wholesalers/dealers due to which the average collection period remained high at around 72 days in FY21, compared to 62 days during FY20. The company is required to maintain adequate inventory of raw material for smooth running of its production processes. Furthermore, it is critical for the company to maintain the minimum levels of finished goods inventory (wide range of designs, shape, sizes and color) to meet the immediate demand of its customers. This resulted in average inventory holding period of 95 days in FY21, which increased from 71 days in during FY20. Furthermore, company imports its raw materials through Letter of Credit at sight or usance depending upon credit terms of the suppliers. An elongated operating cycle leads to increased reliance of the company on the bank finance for meeting its working capital needs.

**Foreign exchange fluctuation risk and raw material price volatility risk**

The company majorly imports its raw materials with around 74% of total procurement imported during FY21 (71% in FY20). With substantial outlay for procurement in foreign currency while significant chunk of sales realization in domestic currency, the company is exposed to the fluctuation in exchange rates which company doesn't hedge. Furthermore, the company is also exposed to the raw material price volatility risk due to the volatility experienced in the prices of its major raw materials such as Ethyl Vinyl Acetate Copolymer (EVA), Low Density Polyethylene Polymer and Poly Vinyl Chloride (PVC) Resin, which are all crude derivatives. The general volatility in the crude oil prices also has an impact on the price of these products. Raw material constituted more than 60% of the total cost of production in FY21. Any adverse movement in raw materials price without corresponding movement in finished goods price will likely impact 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 aspirations of its target segment, whose 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 their team of in-house designers who work on the upcoming season's collections, and are 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 and result in risk of inventory getting obsolete if it does not meet the taste and preferences of the customers. This could 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 much pricing power and are exposed to competition-induced pressures on profitability. The demand of footwear industry is also dependent upon the seasonal demand from the market.

**Key Rating Strengths**

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

JSCP is a family run business and is managed under the overall guidance of its two-member Board of Directors (BoD) with Mr. Anuj Poddar and Mrs. Rubi Agrawal holding 100% share of the company. Mr. Anuj Poddar is the Director of the company with more than 2 decades of business experience and has involvement in various business sectors. He is also the director of Jayshree PU Tech and Jayshree Polymers Private Limited. By virtue of long experience of the promoters, the company has been able to attract experienced professionals from the industry, who adequately support the BOD.

**Established brand presence and distribution network**

JSCP has successfully established "Magic" as a brand name in footwear products in the domestic market. Additionally, the company has an established marketing and distribution network which comprises of 13 super distributors, more than 139 retailers and a network of 11 retail stores (9 on franchise models and 2 owned properties). JSCP 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 healthy profitability and moderate capital structure with comfortable debt service coverage indicators**

JSCP's PBILDT margin continued remain healthy and improved to 23.18% in FY21 from 19.14% in FY20 aided by favorable product portfolio coupled with better absorption of fixed costs amid higher revenues. Also, PAT margin increased to 13.65% in FY21 from 10.75% in FY20. Furthermore, the company has moderate capital structure marked by debt to equity ratio of 0.36x at the end of FY21 which improved from 0.59x at the end of FY20 on account of lower term debt at the end of FY21. However, overall gearing of the company, increased to 1.03x in FY21 from 0.75x in FY20 on account of increase in short term loan to cater increasing scale of operations. Interest coverage was comfortable at 17.62x in FY21 compared to 9.45x in FY20 aided by improved profitability. Furthermore, Total debt/ GCA also remained moderate at 2.11x at the end of FY21. The capital structure is likely to remain conservative over the medium term with debt service indicators remaining at adequate levels.

**Domestic footwear brands dominate market**

Nepali footwear products have been dominating the domestic market in the recent years, with decreasing dependence on imports. 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 and the trend is likely to continue over the medium term.

**About the Company**

Jayshree Company Private Limited (JSCP) was incorporated on June 26, 1983. The company manufactures slippers and sandals and as on mid-April 2022, it has total production capacity of 12 Mn pairs per annum. The manufacturing facility is located in Biratnagar, Nepal.

Brief financials of JSCP for last three years ending FY21 are given below:

(Rs. Million)

| For the year ended Mid-July | FY19 (Audited) | FY20 (Audited) | FY21 (Audited) |
|---|---|---|---|
| Income from Operations | 630 | 575 | 667 |
| PBILDT Margin (%) | 15.85 | 19.14 | 23.18 |
| Overall Gearing (times) | 0.74 | 0.75 | 1.03 |
| Interest Coverage (times) | 8.68 | 9.45 | 17.62 |
| Current Ratio (times) | 1.50 | 2.53 | 1.41 |
| Total Debt/Gross Cash Accruals (times) | 1.74 | 1.70 | 2.11 |

**Annexure 1: Details of the Facilities rated**

| Nature of the Facility | Type of the Facility | Amount (Rs. In Million) | Rating |
|---|---|---|---|
| Long Term Bank Facilities | Term Loans | 67.22 | **CARE-NP BB+** |
| Short Term Bank Facilities | Working Capital Loans | 273.00 | **CARE-NP A4+** |
| Short Term Bank Facilities | Non-Fund Based Loans | 259.78 | **CARE-NP A4+** |
| **Total** | | **600.00** | |

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**About CARE Ratings:**

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