

Press Release

Japtech Industries

May 25, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 24.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable (Upgraded from SMERA BB/Stable)
Short Term Rating	SMERA A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating to '**SMERA BB+**' (read as **SMERA double B plus**) from '**SMERA BB**' (read as **SMERA double B**) and reaffirmed the short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 24.00 crore bank facilities of Japtech Industries. The outlook is '**Stable**'.

Japtech Industries (JI) was established in 1988 as a partnership firm run by the Agarwal family. The firm acts as a Tier-I manufacturer of automobile parts. The firm directly supplies to Original Equipment Manufacturer (OEM); TATA Motors, Mahindra, Piaggio, amongst others. The firm manufactures components of Light Commercial Vehicles. The company has two units, one at Jamshedpur where 100% sales are made to Tata Motors and another unit is at Chakan, Pune. Recently, the company has invested in a land at Chakan, admeasuring 20 acres. The firm is positive on acquiring a major order from York Transport Equipment, after which the management shall expand its capacity.

Key Rating Drivers

Strengths

- **Experienced management & association with reputed clientele**

The Agarwal family has an experience of almost three decades in the auto component manufacturing industry. Since the organization is a part of this industry since a long while, it has been able to liaison with reputed companies like TATA Motors, Mahindra, Piaggio, AMW Motors, amongst others.

- **Moderate financial risk profile**

The firm has moderate financial risk profile marked by net worth of Rs. 24.60 crore as on 31 March, 2017 as against Rs.27.00 crore as on 31 March, 2016. The net worth of the firm stood at Rs.25.84 crore as on 31st March, 2018 (P). The gearing stood at 1.38 times as on FY18 (P) as against 0.81 times as on 31 March, 2017. The increase in the gearing is mainly on account of unsecured loans brought in by the promoters and term loan availed for acquiring land at Chakan. The total debt of Rs.35.57 crore outstanding as on 31 March, 2018, mainly comprising of working capital funding of Rs.17.53 crore, unsecured loans from partners of Rs.9.50 crore and term loans from the bank of Rs.8.54 crore. The gearing, going forward is expected to stay at the same levels in absence of any further expansion plans undertaken by the company. The Interest Coverage Ratio (ICR) stood at 2.37 times in FY2018 (P) as against 2.06 times in FY2017. The firm has healthy Net Cash Accruals of Rs.3.52 Crore (P) as on FY18. Going forward, from FY19, the Current Portion of Long Term Debt (CPLTD) shall be Rs.1.06 Crore, which means that the company shall enough cushion available.

- **Comfortable working capital cycle**

The company has comfortable working capital cycle days of 82 for FY18 and 80 days in the previous year. The working capital cycle has remained comfortable over these years. Moreover, the Gross Current Assets days (GCA) have improved from 180 in FY17 to 130 in FY18, on account of well managed debtor and inventory days.

• Improvement in revenues

The firm achieved revenue of Rs.118.61 Crore for FY18 (P). The firm's revenues have remained almost stagnant in FY17 at Rs.83.78 crore & Rs.82.18 crore in FY16. The improvement in revenues is mainly on account of better order book position in FY18. The firm is expecting an improvement in revenues going forward, owing to an order expected from York Transport Equipment Asia. Further the operating margins have improved in FY17 to 5.32 per cent when compared to 3.29 per cent in FY2016. The operating margins have declined marginally in FY18 (P) to 4.27 per cent on account of increase in raw material prices.

Weaknesses

• High dependence on the automobile sector

High dependence on the automobile sector makes the firm vulnerable to vagaries associated with the industry.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the ratings.

Outlook: Stable

SMERA believes JI's outlook will remain stable over the medium term on the back of healthy business prospects supported by reputed clientele and experienced management. The outlook may be revised to 'Negative' in case of significant decline in revenue and profitability or deterioration in the firm's capital structure. Conversely the outlook may be revised to 'Positive' in case the firm achieves sustained growth in revenues and profit margins with substantial improvement in capital structure.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	118.61	83.78	82.18
EBITDA	Rs. Cr.	5.07	4.46	2.71
PAT	Rs. Cr.	1.89	0.70	0.21
EBITDA Margin	(%)	4.27	5.32	3.29
PAT Margin	(%)	1.59	0.83	0.25
ROCE	(%)	8.42	6.66	6.46
Total Debt/Tangible Net Worth	Times	1.38	0.81	0.61
PBDIT/Interest	Times	2.37	2.06	1.63
Total Debt/PBDIT	Times	5.84	4.34	3.54
Gross Current Assets (Days)	Days	130	180	167

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-April-2018	Cash Credit	Long Term	INR 15	SMERA BB (Indicative)
	Letter of Credit	Long Term	INR 3	SMERA A4+ (Indicative)
03-Mar-2017	Cash Credit	Long Term	INR 15	SMERA BB / Stable (Reaffirmed)
	Term Loan	Long Term	INR 6	SMERA BB / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 3	SMERA A4+ (Reaffirmed)
21-Nov-2016	Cash Credit	Long Term	INR 15	SMERA BB / Stable (Reaffirmed)
	Term Loan	Long Term	INR 6	SMERA BB / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 3	SMERA A4+ (Reaffirmed)
24-Aug-2015	Cash Credit	Long Term	INR 8	SMERA BB / Stable (Assigned)
	Term Loan	Long Term	INR 6	SMERA BB / Stable (Assigned)
	Letter of Credit	Short Term	INR 10	SMERA A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+ / Stable (Upgraded from SMERA BB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BB+ / Stable (Upgraded from SMERA BB/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A4+ (Reaffirmed)

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