

Press Release

Japtech Industries

August 21, 2019



Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

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

The downgrade is in the view of significant moderation of revenue as well as profitability of the firm. Further, it is driven by slowdown in the automobile industry. Acuité believes that the ability of the firm to sustain its business risk profile, notwithstanding current slowdown in the automobile industry, will be critical.

Japtech Industries (JI) was founded by the Agarwal family as a partnership firm in 1988. Mr. Naresh Agarwal, Ms. Sunita Agarwal, Mr. Aman Agarwal and Ms. Poonam Mittal are current partners of the firm. The firm is a Tier- I manufacturer of automobile parts i.e. metal sheet press components. The firm caters to Original Equipment Manufacturer (OEM) like, TATA Motors, Mahindra, Piaggio, among others. The firm has two manufacturing units, at Jamshedpur and Pune.

Analytical Approach

Acuité has considered the standalone financial and business risk profiles of JI to arrive at the ratings.

Key Rating Drivers

Strengths

- Long track of operations and experienced management**

JI is operating since 1988. The partners, Mr. Naresh Agarwal and Ms. Sunita Agarwal, have experience of over three decades in the automobile industry. The partners are well supported by second line of generation, Mr. Aman Agarwal and Ms. Poonam Mittal. The extensive experience has helped the firm to establish its position in the domestic market and has enabled the firm to leverage its relations with reputed customers and suppliers.

Acuité believes that the firm will continue to benefit from the partners' established presence in improving its business risk profile over the medium term.

- Moderate financial risk profile**

JI has moderate financial risk profile marked by tangible net worth of Rs.22.38 crore as on 31 March, 2019 (Provisional) as against Rs.21.20 crore as on 31 March, 2018. The gearing stood at 1.57 times as on 31 March, 2019 (Provisional) as against 1.56 times as on 31 March, 2018. The total debt of Rs.35.05 crore as on 31 March, 2019 (Provisional) consists of working capital borrowings of Rs.23.20 crore, term loans of Rs.6.25 and unsecured loans from promoters of Rs.5.60 crore. The debt protection metrics have improved in FY2019 (Provisional). Interest Coverage Ratio (ICR) stood at 2.30 times in FY2019 (Provisional) as against 1.67 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.25 times as on 31 March, 2019 (Provisional) as compared to 2.31 as on 31 March, 2018.

Acuité expects the firm to maintain its financial risk profile in near to medium term in the absence of any significant debt-funded capex plan.

Weaknesses

- **Intensive working capital operations**

Despite improvement, the working capital cycle of JI is still intensive in nature marked by Gross Current Assets (GCA) days of 151 in FY2019 (Provisional) as compared to 178 days in FY2018. This is majorly due to the collection period of 86 days in FY2019 (Provisional) as against 107 days in FY2018. The firm keeps inventory of raw material and finished goods, which stands at 59 in FY2019 (Provisional) as against 57 in FY2018. The creditor days stands at 54 days in FY2019 (Provisional) as against 51 days in FY2018. The average utilisation of cash credit stood at ~94 per cent for past six months through July, 2019. Acuité believes that efficient working capital management will be the key rating sensitivity.

- **Capital withdrawal risk**

JI is exposed to risk of capital withdrawal considering its partnership constitution. However, there were significant withdrawals observed during the period under study.

Liquidity Position

Liquidity profile of JI is adequate reflected by sufficient net cash accruals against its maturing debt obligations. JI has reported cash accruals of Rs.4.90 crore in FY2019 (Provisional) and expected to generate cash accruals in the range of Rs.4.36-5.53 crore over the medium term against repayment obligations of Rs.2.50 crore. The average utilisation of working capital limits are about 94 per cent for the last six months ended July 2019. The current ratio stood at 1.29 times in FY2019 (Provisional). Acuité believes that the cushion in its accruals is expected to be absorbed into its incremental working capital operations resulting into adequate liquidity profile.

Outlook: Stable

Acuité believes that JI will maintain a 'Stable' business risk profile over the medium term based on its established track record and experienced management. The outlook may be revised to 'Positive' in case the firm registers a substantial increase in the scale of operations, while maintaining profit margins. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected scalability in revenues amidst competition or in case of deterioration in the firm's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	120.08	108.20	83.78
EBITDA	Rs. Cr.	8.11	3.33	4.46
PAT	Rs. Cr.	1.78	0.25	0.70
EBITDA Margin	(%)	6.75	3.08	5.32
PAT Margin	(%)	1.48	0.23	0.83
ROCE	(%)	9.93	5.83	6.66
Total Debt/Tangible Net Worth	Times	1.57	1.56	0.81
PBDIT/Interest	Times	2.30	1.67	2.06
Total Debt/PBDIT	Times	4.04	7.52	4.34
Gross Current Assets (Days)	Days	151	178	180

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-May-2018	Term Loan	Long Term	3.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB/ Stable)
	Cash Credit	Long Term	15.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB/ Stable)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Reaffirmed)
04-Apr-2018	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Indicative)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Indicative)
03-Mar-2017	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BB (Withdrawn)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
21-Nov-2016	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BB / Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)

*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	6.00	ACUITE BB / Stable (Downgraded from ACUITE BB+/ Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB / Stable (Downgraded from ACUITE BB+/ Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00 (Revised from Rs.6.00 crore)	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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