

Press Release

JK SONS ENGINEERS PRIVATE LIMITED

February 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BBB+ / Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB+**' (**read as SMERA BBB plus**) and short term rating of '**SMERA A2+**' (**read as SMERA A2 Plus**) on the Rs. 30.00 crore bank facilities of JK SONS ENGINEERS PRIVATE LIMITED. The outlook is '**Stable**'.

JK Sons Engineers Private Limited (JK Sons), a Chattisgarh-based company was incorporated in 2008 by Mr. Jai Prakash Agarwal, Mr. Pranav Prakash Agarwal and Mr. Satya Prakash Agarwal. The ISO 9001:2008 certified company is engaged in the manufacturing of PP/HDPE bags and caters to various industries including cement, fertiliser, chemicals among others. The company expanded its capacity from 4200 MT per annum to 9600 MT per annum in 2012. Bilaspur Mining Industries Private Limited (BMIPL) was incorporated in 1997 by Mr. Jai Prakash Agarwal and Mr. Malay Kumar Dutta. The company manufactures special purpose machineries, mainly used in the mining industry. The ISO 9001:2008 certified company is engaged in the manufacturing of PP/ Block Bottom Valve/ LPP/ HDPE bags. The installed capacity stands at 7500 MT. Going forward, BMIPL plans to stop manufacturing of special purpose machineries. SMERA has consolidated the business and financial risk profiles of JK Sons Engineers Private Limited and Bilaspur Mining Industries Limited, together referred to as the JK Group (JKG). The consolidation is due to the common management, apart from significant financial and operational synergies within the group.

Key Rating Drivers

Strengths

• Experienced management, long track record of operations

The JK Group is promoted by Mr. Jai Prakash Agarwal, Mr. Pranav Prakash Agarwal, Mr. Satya Prakash Agarwal, and Mr. Malay Kumar Dutta. The promoters possess experience of more than two decades in the said line of business.

• Comfortable financial risk profile

The group has a comfortable financial risk profile marked by healthy networth, low gearing and comfortable debt protection metrics. The networth stood at Rs.53.27 crore as on 31 March, 2017 against Rs.50.12 crore in the previous year. The networth consists of unsecured loans from promoters of Rs.3.56 crore which are subordinated to bank debt. Hence, SMERA has treated the same as quasi equity. The gearing stood at 0.89 times as on 31 March, 2017 as against 0.78 times in the previous year. The total debt of Rs.47.16 crore consists of long term debt of Rs.28.94 crore, short term borrowings of Rs.11.48 crore and current portion of long term debt of Rs.6.96 crore. The Interest Coverage ratio stood at 3.68 times as on 31 March, 2017 as against 4.01 times in the previous year. The Debt Service Coverage Ratio (DSCR) stood at 1.82 times as on 31 March, 2017 as against 1.64 times in the previous year.

• Reputed client base

The group caters to reputed customers namely Lafarge Cement Company India Limited, ACC Limited, Ambuja Cements Limited, Ultra Tech Cements to name a few. The promoters have been able to establish comfortable relationships with customers.

• Moderate scale of operations

The group registered increase in revenue to Rs.174.57 crore in FY2017 from Rs.147.21 crore in the

previous year with manufacturing commencing at the Bilaspur unit.

• Healthy liquidity position

The group has healthy net cash accruals of Rs.13.19 crore as on 31 March, 2017 as against Rs.9.87 crore in the previous year. The Current Portion of Long Term Debt (CPLTD) for FY2016 stood at Rs.4.77 crore as against net cash accruals of Rs. 13.19 crore for FY2017. The average cash credit utilisation for last six months ended December 2017 is about 70 percent. The cash and bank balance stood at Rs.6.55 crore as on 31 March, 2017.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Asset days (GCA) of 113 as on 31 March, 2017 as against 139 days in the previous year. The inventory days stood at 43 as on 31 March, 2017 as against 34 in the previous year. However, the debtor days improved to 40 days as on 31 March, 2017 as against 52 days in the previous year.

• Susceptibility of profitability to fluctuations in raw material prices

The profitability is susceptible to volatility in raw material prices. The total raw material cost as a percentage of sales stood at 68.11 percent in FY2016-17 as against 67.10 percent in FY2014-15. Further, the raw materials used for preparing PP bags are plastic granules, the prices of which are dependent on the price of crude oil prices. Changes in the prices of crude are expected to significantly impact profitability margins of the company.

Analytical Approach

SMERA has consolidated the business and financial risk profiles of JK Sons Engineers Private Limited and Bilaspur Mining Industries Private Limited, together referred to as the JK Group (JKG). The consolidation is due to common management, apart from significant financial and operational synergies within the group.

Outlook: Stable

SMERA believes that JKG will maintain a Stable outlook and continue to benefit over the medium term from its promoter's extensive industry experience and reputed customers. The outlook may be revised to 'Positive' in case of sustainable improvement in the scale of operations, while it maintains its profitability and comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' if the revenue registers a decline or the financial risk profile weakens, because of a stretch in working capital cycle. Any large debt-funded capex undertaken by the company may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	174.57	147.21	158.56
EBITDA	Rs. Cr.	19.85	15.36	16.02
PAT	Rs. Cr.	3.46	2.18	0.36
EBITDA Margin	(%)	11.37	10.44	10.10
PAT Margin	(%)	1.98	1.48	0.23
ROCE	(%)	10.92	9.96	19.57
Total Debt/Tangible Net Worth	Times	0.89	0.78	1.15
PBDIT/Interest	Times	3.68	4.01	3.33
Total Debt/PBDIT	Times	2.33	2.49	2.33
Gross Current Assets (Days)	Days	113	139	101

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BBB+ / Stable
Term Loan - I	Not Applicable	Not Applicable	Not Applicable	8.24	SMERA BBB+ / Stable
Term Loan - II	Not Applicable	Not Applicable	Not Applicable	2.29	SMERA BBB+ / Stable
Term Loan - III	Not Applicable	Not Applicable	Not Applicable	0.84	SMERA BBB+ / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2+
Proposed Cash Credit Facility	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BBB+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.63	SMERA BBB+ / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Deep Majumder Analyst - Rating Operations Tel: 022-67141147 deep.majumder@smera.in	

ABOUT SMERA

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