

Press Release

Jayachandran Alloys Private Limited (JAPL)

20 March, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.28.00 Cr.
Long Term Rating	SMERA BBB/ Stable
Short Term Rating	SMERA A2

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB**' (read as **SMERA triple B**) and short term rating of '**SMERA A2**' (read as **SMERA A2**) on the above mentioned facility of Jayachandran Alloys Private Limited. The outlook is '**Stable**'.

Incorporated in 2006 by Mr. Anbalagan and his four brothers, Jayachandran Alloys Private Limited (JAPL) is engaged in manufacturing of lead and lead based alloys from lead battery scrap. The company has facility located in Perundurai (Tamil Nadu) with installed capacity of 67,000 tons per annum. The day to day operations of the company are managed by Mr. C Pradeep, Managing director. The company is part of JC group, which has presence in manufacturing of lead alloys, plastics and lead acid batteries and scrap recycling among others.

Analytical approach: SMERA has consolidated the business and financial risk profiles of Jayachandran Alloys Private Limited and Eswari Global Metal Industries Private Limited (hereinafter referred to as the JC group). This is because both entities have a common management and have significant operational linkages.

Key rating drivers

Strengths

Experience management: The founding directors of the group namely Mr. P Anbalagan, Mr. P Chandrasekaran, Mr. P Ramalingam and Mr. P Arumugam have around three decades of experience in trading of nonferrous metals, manufacturing of lead alloys and battery manufacturing. The day-to-day operations of the group are also managed by second generation entrepreneurs namely Mr. C Bharani Kumar, Mr. A. Sabarinathan, Mr. C. Pradeep and Mr. C. Prasath having around a decade of experience in metals, plastic and battery industry.

Established track record of operations with growth in operating income and profitability: The promoters of the group started EMIPL in 1986 with lead smelting unit in Mangalore (Karnataka) and later in 2006 EMIPL added second unit in Mangalore (Karnataka). Both the entities together have installed capacity of 80, 000 tons per annum. The operating income of the group increased to Rs.380.76 crore in FY2017 from Rs.328.81 crore in FY2016. Operating income as on January 31, 2018 stood at ~Rs.434.65 crore (provisional). The growth in operating income was supported by increased production coupled with increased demand from domestic and international markets. However, operating income declined in FY2016 to Rs.328.81 crore from Rs.362.13 crore in FY2015 due to the halt in production for four months due to the dismantling and re-erection of existing machineries to the new unit of Jayachandran Alloys Private Limited (JAPL). Operating profitability increased to 5.50 per cent in FY2017 from 3.85 per cent in FY2016 due to decline in raw material prices.

Established relationship with reputed clientele: The group benefits from established relationship with domestic and international reputed battery manufacturing clientele such as Exide Industries Ltd, Tata Green Battery Ltd, Sebang Global Battery Co. Ltd, Rahimafrooz Globatt Ltd and among others. The group also deals with international metal trading companies such as Trafigura Pte Ltd. The group has order book position of Rs.58.01 crore as on January 31, 2018 to be executed in FY2018.

Efficient working capital management: The group has efficient working capital management, as reflected in the Gross Current Assets (GCA) of 59 days as on 31 March, 2017 compared to 61 days as on 31 March, 2016 due to moderate debtor and inventory days. The Inventory days in FY2017 stood at 24 compared to 25 in FY2016. The receivable days in FY2017 stood at 25 compared to 34 in FY2016. The firm offers credit period of ~30 days to customers.

Weaknesses

Average financial risk profile: The average financial risk profile of the group is marked by moderate net worth, moderate gearing levels and moderate debt protection metrics. Net worth stood at Rs.26.22 crore as on March 31, 2017 as compared to Rs.22.47 crore as on March 31, 2016. The gearing has improved from 1.91 times as on March 31, 2016 to 1.86 times as on March 31, 2017 due to accretion to reserves. The group has short term debt of Rs.35.57 crore, long term debt of Rs.5.52 crore and unsecured loans from promoters amounting to Rs.6.10 crore as on March 31, 2017. Coverage indicators such as Interest Coverage Ratio (ICR) increased to 2.48 times as on March 31, 2017 as compared to 2.02 times as on March 31, 2016 due to increase in operating profitability. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.19 times as on March 31, 2017.

Outlook – Stable

SMERA believes that the group will maintain a stable outlook and continue to benefit over the medium term from the promoter's extensive industry experience and established track record of operations. The outlook may be revised to 'Positive' in case the group registers strong growth in revenues while achieving sustained improvement in profitability. The outlook may be revised to 'Negative' in case of lower than expected revenue and profit margins or deterioration in the financial risk profile.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	380.76	328.81	362.13
EBITDA	Rs. Cr.	20.93	14.29	13.93
PAT	Rs. Cr.	6.37	3.85	3.46
EBITDA Margin	(%)	5.50	4.35	3.85
PAT Margin	(%)	1.67	1.17	0.96
ROCE	(%)	25.48	20.27	43.11
Total Debt/Tangible Net Worth	Times	1.86	1.91	2.30
PBDIT/Interest	Times	2.48	2.02	1.91
Total Debt/PBDIT	Times	2.36	2.85	2.78
Gross Current Assets (Days)	Days	59	61	55

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Manufacturing Sector - <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>

Status of non-cooperation with previous CRA (if applicable): Care Ratings, vide release dated 09 March, 2018 has suspended the ratings of JAPL on account of lack of adequate information required for monitoring of ratings.

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.25	SMERA BBB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.75	SMERA BBB/ Stable (Assigned)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A2 (Assigned)
Purchase bill discounting	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A2 (Assigned)

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ABOUT SMERA

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