

Press Release

Jayachandran Alloys Private Limited

February 28, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.91	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	50.81	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	75.72	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.50.81 Cr. bank facilities of Jayachandran Alloys Private Limited (JAPL). The outlook is '**Stable**'.

Acuite has also assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.24.91 Cr. bank facilities of Jayachandran Alloys Private Limited (JAPL). The outlook is '**Stable**'.

Rating Rationale

The rating takes into account the stable operating and financial performance of JC Group, marked by improved operating income, range bound operating margins and moderate financial risk profile. The operating income of the Company improved to Rs. 932.66 Cr in FY2022 as against Rs.660.11 Cr in FY2021. In 8M FY23 the company generated revenues of Rs. 607.76 Cr and is expected to close the year in the range of Rs. 965-975 Cr. The operating margins ranged between 4.57-4.89 percent for the last three years ended FY2022. The financial risk profile marked by modest gearing and comfortable debt protection metrics continues to remain moderate.

About Company

Tamil Nadu based Jayachandran Alloys Private Limited (JAPL) was incorporated in the year 2006 by Mr. Anbalagan and his four brothers. The company is engaged in manufacturing of lead alloys from lead battery scrap. The company has its facility located in Perundurai (Tamil Nadu) with installed capacity of 24000 tons per annum. The day to day operations of the company are managed by Mr. C Pradeep, Managing director.

About the Group

Eswari Global Metal Industries Private Limited established as a partnership firm in the year 1986, later, in the year 2013 it was reconstituted to private limited company. The company is engaged in manufacturing of lead alloys from lead battery scrap. The company has facility located in Mangalore (Karnataka) with installed capacity of 72,000 tons per annum. The day to day operations of the company are managed by Mr. A Sabarinathan and Mr. Nithin.

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Jayachandran Industries Private Limited is a Tamil Nadu based company incorporated in the year 2009. The company is engaged in the manufacturing of lead batteries for auto motives and inverter systems.

Jayachandran Plastics Private Limited is a Tamil Nadu based entity incorporated in the year 2010. The company is engaged into recycling of the plastic components from the battery scrap and manufacture plastic chips and granules

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated business and financial risk profile of Jayachandran Alloys Private Limited (JAPL), Eswari Global Metal Industries Private Limited (EGPL), Jayachandran Plastics Private Limited (JPPL), Jayachandran Industries Private Limited (JIPL) together referred as JC Group (JCG) to arrive at the rating. The consolidation is on account of common management, same line of business and significant operational and financial linkages.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management and reputed clientele**

The promoters of the group started EGPL in 1986 with lead smelting unit in Mangalore (Karnataka) and later in 2006 EGPL added second unit in Mangalore (Karnataka). The founding directors of the JC group namely Mr. P Anbalagan, Mr. P Chandrasekaran, Mr. P Ramalingam and Mr. P Arumugam have around three decades of experience in trading of non-ferrous 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. Further, the group has reported healthy revenue of Rs.932.66 Cr in FY2022 as against Rs.660.11 Cr. in FY2021. Acuité believes that the JC group will continue to benefit from its established relationship with domestic and international reputed battery manufacturing clientele.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate with moderate networth, moderate gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.92.03 Cr and Rs.71.52 Cr as on March 31, 2022 and 2021 respectively. The improvement is on account of moderate accretion of net profit in the reserve. The gearing of the company stood at 1.60 times as on March 31, 2022 against 1.65 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 4.12 times and 2.34 times as on March 31, 2022 respectively as against 2.87 times and 1.67 times as on March 31, 2021 respectively. The debt to EBITDA of the company stood at 3.29 times as on March 31, 2022 as against 3.70 times as on March 31, 2021. TOL/TNW stood at 2.16 times in FY2022 and 2.28 times in FY2021. Acuité believes that the financial risk profile of the company will continue to remain moderate over the medium term.

• **Efficient Working capital operations**

JC Group's operation are comfortable in term of working capital marked by Gross Current Asset (GCA) days of 78 days in FY2022, 86 days in FY2021 respectively. The working capital cycle remained in the said range on account of limited credit period offered to the debtors and moderate levels of inventory maintained by the group. Inventory days stood at 35 days as on March 31, 2022 as against 56 days as on March 31, 2021. Subsequently, the payable period stood at 13 days as on March 31, 2022 as against 17 days as on March 31, 2021 respectively. The debtor day stood at 17 days as on March 31, 2022 as against 17 days as on March 31, 2021. Further, the average bank limit utilization in the last eight months ended November, 22 remained at ~85 percent for fund based and 92 percent for non-fund based. Acuité believes that the group will continue to effectively manage its working capital cycle in order to maintain a stable credit profile.

Weaknesses

• **Modest operating margins and competitive industry**

The major raw material of the group is battery scrap. The prices of the same are fluctuating in nature, therefore the operating profit margins of the group is susceptible to raw material price fluctuation. Further, JC Group imports 90 percent of its raw material from Middle East and Asian countries. Currently, battery storage (raw material lead) is being replaced by lithium-ion batteries for electric vehicles. There is expected pressure on demand due to moderation in off take by auto sector. The operating margins are also dependent on prices of raw material (i.e. lead) which is highly volatile in nature. It is exposed to intense competition in the replacement battery market in automobile segment from the market leaders. Acuité believes that established relations with suppliers will be crucial for the group for procuring its raw material.

Rating Sensitivities

- Significant Improvement in revenues and profitability while maintaining the capital structure
- Elongation of working capital cycle

Material Covenants

None

Liquidity Position: Adequate

JC Group's liquidity is adequate marked by moderate generation of net cash accruals in FY2022 to its maturing debt obligations, efficient working capital management and modest level of unencumbered cash and bank balance. JC group has generated cash accruals in the range of Rs.16.52-28.04 Cr during last three years ending FY2022 as against its long term debt obligations in the range of Rs.5.6-5.73 Cr for the same period. The Group is expected to generate adequate NCAs in the range of Rs.31.28-35.61 Cr. against modest CPLTD of Rs.6.56-6.57 Cr over the medium term. The group's Gross Current Asset (GCA) days stood at 78 days as on March 31, 2022. The current ratio stood at 1.52 times as on March 31, 2022 against 1.56 times in previous year. JC Group maintained unencumbered cash and bank balances of Rs.4.58 Cr as on March 31, 2022. Further, the group has unencumbered deposits with bank of Rs.10.13 Cr. The total working capital limit remained moderately utilized at an average of nearly 80 per cent for the 8 months ending November, 2022. Acuité believes that the liquidity of JC Group to remain adequate on account of moderate cash accruals against repayment obligations..

Outlook: Stable

Acuité believes that JC group will maintain a 'Stable' outlook over the medium term backed

by its experienced management, moderate financial risk profile and efficient working capital operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, deterioration in financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	932.66	660.11
PAT	Rs. Cr.	20.70	10.72
PAT Margin	(%)	2.22	1.62
Total Debt/Tangible Net Worth	Times	1.60	1.65
PBDIT/Interest	Times	4.12	2.87

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

none

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Mar 2022	Term Loan	Long Term	1.91	ACUITE BBB Stable (Reaffirmed)
	Packing Credit	Long Term	13.43	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	4.25	ACUITE BBB Stable (Reaffirmed)
	Bills Discounting	Long Term	11.00	ACUITE BBB Stable (Reaffirmed)
	Packing Credit	Long Term	16.57	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.87	ACUITE BBB Stable (Reaffirmed)

	Proposed Bank Facility	Short Term	1.99	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	0.03	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.76	ACUITE BBB Stable (Reaffirmed)
03 Sep 2020	Cash Credit	Long Term	5.25	ACUITE BBB Stable (Assigned)
	Bills Discounting	Short Term	6.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Long Term	11.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	7.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	0.31	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.94	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.59	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	1.82	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	2.63	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.84	ACUITE BBB Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	14.59	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	13.41	ACUITE BBB Stable Assigned
Kotak Mahindra Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE BBB Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	01 Jun 2019	Not available	01 May 2022	Simple	1.47	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.58	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	25 Jan 2021	Not available	25 Jan 2025	Simple	3.17	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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