

Press Release

Jayachandran Industries Private Limited

May 22, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.13.40 Crore.
Long Term Rating	SMERA B+/ Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+** (read as SMERA B plus) and short term rating of **SMERA A4** (read as SMERA A four) on the Rs.13.40 crore bank facilities of JIPL. The outlook is '**Stable**'.

Incorporated in 2009 by Mr. Anbalagan and his four brothers, Jayachandran Industries Private Limited (JIPL) is engaged in manufacture of lead-acid batteries for automotives and inverter systems. The company markets the batteries under the brand name 'JC'. The company has facility located in Coimbatore (Tamil Nadu) with installed capacity of 300 tons per month. The day to day operations of the company are managed by Mr. Bharani Kumar (Managing Director). The company is a part of JC group, which has presence in manufacturing of lead alloys, plastics and lead acid batteries and scrap recycling among others.

Key rating drivers

Strengths

Revenue growth supported by experienced management and established presence of group:

The promoters, Mr. Palaniappan Ramalingam, Mr. Palaniappan Chandrasekaran, Mr. Palaniyappan Chettiar and Mr. Anbalagan Palaniyappan Arumugam are seasoned players in the lead alloys, plastics, batteries and scrap industry having experience of around four decades each. The promoters have other group entities, viz, Jayachandran Alloys Private Limited and Jayachandran Plastics Private Limited from which JIPL sources raw materials. This coupled with addition of Value Regulated Lead Acid (VRLA) batteries and battery plates to its product profile along with increase in exports helped JIPL in improving its revenues from about Rs.37.78 crore in FY2015 to about Rs.61.15 crore (Provisional) in FY2018 at a compound annual growth rate (CAGR) of about 17.4 percent. The promoters' experience coupled with their longstanding presence makes the company to win repetitive orders from reputed clientele in the automobile, batteries and UPS/inverter industries and SMERA believes that JIPL will benefit over the medium term through it.

Moderate working capital management:

JIPL has moderate working capital operations as evident from Gross Current Assets (GCA) days of 78 as on March 31, 2017 as against 111 as on March 31, 2017. The inventory days ranged from 49 to 85 and debtor days ranged from 7 to 26 during FY2015-FY2017. The company gives credit of up to a month to its customers. Inventory days improved to 49 as on 31 March, 2017 as compared to 84 as on 31 March, 2016 due to better inventory management as per market price movements. SMERA believes that the working capital operations will remain moderate as evident from improved inventory levels in the business.

Weaknesses

Weak financial risk profile:

The weak financial risk profile is marked by low net worth, high gearing and moderate debt protection metrics. The net worth stands at Rs.2.08 crore as on 31 March, 2017, improved by Rs.0.30 crore in FY2017.

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mainly due to internal accruals. The gearing is high at 4.70 times in FY2018, improved from 5.28 times in FY2017. The gearing levels improved due to repayment of long term debt. Interest Coverage Ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) are moderate at 2.88 times and 0.22 times respectively for FY2018. SMERA believes that the financial risk profile, such as, gearing is expected to improve to about 3.5 times, and ICR and NCA/TD is expected to improve to 3 times and 0.25 times respectively over the medium term due to absence of debt funded capex plans.

Operating margins vulnerable to intense competition and raw material prices:

The battery industry in India is highly competitive with large players such as Excide Batteries Limited, Luminous Power Technologies Pvt. Ltd, Amara Raja Batteries Ltd among others. With a limited pricing power, the company has low flexibility in passing on price risks to the customers, which has led to decline in operating margins from 9.44 percent in FY2015 to 5.88 percent in FY2017.

Hazardous nature of lead-recycling operations:

Lead, which is a highly toxic and polluting material, is the primary raw material in manufacturing batteries. Hence, handling lead requires adherence to pollution-control norms and the company had to incur additional costs for managing the environmental impacts of the material.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of JIPL to arrive at this rating.

Outlook - Stable

SMERA believes that JIPL will maintain a 'Stable' outlook over the medium term on account of the management's experience and group support. The outlook may be revised to 'Positive' in case of sustained increase in revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant volatility in profitability or larger-than-expected debt funded capex impacting its liquidity.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	49.33	39.63	37.78
EBITDA	Rs. Cr.	2.90	2.99	3.57
PAT	Rs. Cr.	0.01	0.06	0.02
EBITDA Margin	(%)	5.88	7.55	9.44
PAT Margin	(%)	0.01	0.14	0.04
ROCE	(%)	11.37	10.60	22.33
Total Debt/Tangible Net Worth	Times	5.28	7.15	9.29
PBDIT/Interest	Times	2.22	2.17	2.07
Total Debt/PBDIT	Times	3.14	3.51	3.97
Gross Current Assets (Days)	Days	78	111	89

Any other information:

Not Applicable

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>

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

Not Applicable

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	6.40	SMERA B+/Stable (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4 (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4 (Assigned)

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ABOUT SMERA

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