Press Release

Jayachandran Industries Private Limited

June 27, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 13.40 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** and short term rating of **'ACUITE A4' (read as ACUITE A four)** to the Rs. 13.40 crore bank facilities of **Jayachandran Industries Private Limited** (JIPL). The outlook is **'Stable'**.

Incorporated in 2009 by Mr. Anbalagan and his four brothers, JIPL is engaged in manufacture of lead-acid batteries for automotives and invertor 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, lead acid batteries and scrap recycling among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of JIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established presence of the group**
  The promoters of the company, 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 individually. 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, battery plates to its product profile and increase in exports helped JIPL in improving its revenues. The promoters' experience coupled with their longstanding presence, helps the company to win repetitive orders from reputed clientele in the automobile, batteries and UPS/inverter industries. Acuité believes that JIPL will benefit over the medium term on account of extensive experience of the promoters.

- **Moderate working capital management**
  JIPL has moderate working capital operations as evident from gross current assets (GCA) of 75 days as on March 31, 2019 (Provisional) as against 65 days as on March 31, 2018. The company's inventory ranged from 49 days to 68 days and debtors ranged from 8 days to 26 days during FY17-FY19. The company gives credit of up to a month to its customers. Inventory days increased to 68 as on 31 March, 2019 (Provisional) as compared to 46 days as on 31 March, 2018 due to reduction in sales. Acuité believes that the working capital operations of the company will remain moderate in the near to medium term.

Weaknesses

- **Weak financial risk profile**

  The financial risk profile of JIPL is marked by low net worth, high gearing and moderate debt protection measures. The net worth stood at Rs. 2.24 crore as on 31 March, 2019 (Prov.) as against Rs. 2.03 crore as on 31 March, 2018. The gearing (debt to equity) increased to 4.89 times as on 31 March, 2019 (Prov.) against 4.08 times as on 31 March, 2018. Total outstanding liabilities to total net worth (TOL/TNW) stood at 8.46 times as on 31 March, 2019 (Prov.) against 10.11 times in the previous year. Net cash accruals to total debt (NCA/TD) stood low at 0.17 times as on March 31, 2019 (Prov.) against 0.21 times as on March 31, 2018. Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood moderate at 2.44 times as on 31 March, 2019 (Prov.).

  Acuité believes that improvement in the scale of operations, stable profitability and efficient working capital management will be the crucial factors that would affect the financial risk profile of the company.

- **Operating margins vulnerable to intense competition and raw material prices**

  The battery industry in India is highly competitive with large players such as Exide Batteries Limited, Luminous Power Technologies Private Limited, and Amara Raja Batteries Limited among others. With a limited pricing power, the company has low flexibility in passing on price risks to the customer, which has led to decline in operating margins.

- **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.

Liquidity Position:

Liquidity of JIPL is adequate marked by net cash accruals of Rs.1.50-2.00 crore during the last three years. The cash accruals of the company are expected to improve with low repayment obligations over the near term. The company's operations are well managed as marked by gross current asset (GCA) days of 75 in FY2019. Working capital borrowings in the company remained fully utilised during the last 6 months ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2019. The current ratio of the company stood low at 0.64 times as on March 31, 2019. Acuité believes that the liquidity of the company will remain adequate over the near to medium term on account of increasing net cash accruals sufficient to meet repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuité believes that JIPL's outlook will remain 'Stable' owing to the extensive experience of its promoters in the industry and group support. The outlook may be revised to 'Positive' if the scale of operations increase substantially while improving profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or deterioration in the financial risk profile owing to higher-than-expected debt-funded capex or working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	62.52	49.33	39.63
EBITDA	Rs. Cr.	1.99	2.90	2.99
PAT	Rs. Cr.	0.24	0.01	0.06
EBITDA Margin	(%)	3.19	5.88	7.55
PAT Margin	(%)	0.39	0.01	0.14
ROCE	(%)	11.90	11.37	10.60
Total Debt/Tangible Net Worth	Times	4.08	5.28	7.15
PBDIT/Interest	Times	2.82	2.22	2.17
Total Debt/PBDIT	Times	3.01	3.14	3.51
Gross Current Assets (Days)	Days	65	78	111

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

None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.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
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-May-2018	Cash Credit	Long Term	6.40	ACUITE B+ / Stable (Assigned)
	Bill Discounting	Short Term	4.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Assigned)

***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	6.40	ACUITE B+ / Stable (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:
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