

Press Release

Jayachandran Industries Private Limited

September 21, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs.13.40 Cr.
Long Term Rating	ACUITE BBB / Stable (Upgraded)
Short Term Rating	ACUITE A2 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE B+**' (read as **ACUITE single B plus**) and the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.13.40 Crore bank facilities of Jayachandran Industries Private Limited (JIPL). The outlook is '**Stable**'.

About the company

Incorporated in 2009 by Mr. Anbalagan and his four brothers, JIPL is engaged in the manufacture of lead acid batteries for automotive and inverter systems. The company markets the batteries under the brand name 'JC'. The company has a facility located in Coimbatore (Tamil Nadu) with an installed capacity of 150 MT per annum. The day to day operations of the company are managed by Mr. Bharani Kumar (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 a private limited company. The company is engaged in manufacturing of lead alloys from lead battery scrap. The company has a facility located in Mangalore (Karnataka) with an installed capacity of 72,000 tons per annum. The day to day operations of the company is managed by Mr. A Sabarinathan and Mr. Nithin.

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 in recycling of the plastic components from the battery scrap and manufacture plastic chips and granules.

JC Alloys Battery Scrap Centre is a trading firm engaged in the business of procurement of old condemned batteries and sells it to Jayachandran Alloys Private Limited and other local customers.

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record of operations and experienced management and reputed clientele

The promoters of the group started EGLP in 1986 with lead smelting unit in Mangalore (Karnataka) and later in 2006 EGLP added the 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.707.90 Cr. for FY2020 (Provisional) as against Rs.698.09 Cr. in FY2019 and Rs.562.42 Cr. in FY2018.

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 group is moderate, marked by moderate net worth, gearing and debt protection indicators. The tangible net worth of the group stood at Rs.60.61 Cr. as on 31 March, 2020 (provisional) as against Rs.48.67 Cr. in the FY2019, the increase is due to the accretion of profits to reserves. The gearing (debt-equity) and Total outside liabilities to Tangible Net Worth (TOL/TNW) levels are moderate at 1.12 and 2.05 times respectively as on 31 March, 2020 (provisional) vis-à-vis 1.43 and 2.58 times respectively as on 31 March, 2019. The total debt outstanding of Rs.67.67 Cr. as on 31 March, 2020 (provisional), long term debt constitutes Rs.14.15 Cr.; unsecured loans constitutes of Rs.16.81 Cr. and short term debt of Rs.31.11 Cr. The interest coverage ratio and net cash accruals to total debt are moderate at 3.12 times and 0.25 times, respectively in FY2020 (provisional) as against 2.98 times and 0.24 times, respectively in FY2019.

Acuité believes that the financial risk profile of the group is expected to remain moderate over the near to medium term on account of moderate cash accruals and absence of any significant debt-funded capex.

- **Efficient working capital management**

JC group's working capital is efficiently managed marked by the Gross Current Assets (GCA) of 66 days in FY2020 (provisional) as against 55 days in FY2019. This is on account of increased in inventory days to 29 in FY2020 (provisional) as against 20 days in FY2019. The debtor days stood at 21 in FY2020 (provisional) as against 22 days in FY2019. The creditor days stood at 21 in FY2020 (provisional) as against 27 days in FY2019. Moreover, JC group's bank limit utilization stood moderate at an average of ~75 percent for the last six months ended July 2020.

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 the 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 the 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 the 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 Sensitivity factors

- Significant improvement in revenues
- Any further deterioration in working capital and operating margins

Material Covenants: None

Liquidity Position: Adequate

JCG has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs.15.13-16.62 Cr. during the last three years through 2018-20, while the maturing debt obligations were in the range of Rs.1.50-5.60 Cr. over the same period. The cash accruals are estimated to be around Rs.16.80-19.90 Cr. during 2021-23, while its repayment obligations in the range of Rs.5.60 Cr. to Rs.6.00 Cr. The group maintains cash and bank balances of Rs.2.68 Cr. as in March 31, 2020 (provisional). The current ratio stood moderate at 1.39 times as in March 31, 2020 (provisional). Further, the working capital limits of the group remains utilized at 75 percent for the last six months ended in July 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account

of improvement in net cash accruals.

Outlook: Stable

Acuité believes that JC group will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of a 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.

About the Rated Entity - Key Financials - Consolidated

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	707.90	698.09
PAT	Rs. Cr.	11.85	10.17
PAT Margin	(%)	1.67	1.46
Total Debt/Tangible Net Worth	Times	1.12	1.43
PBDIT/Interest	Times	3.12	2.98

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
27-Jun-19	Cash Credit	Long Term	6.40	ACUITE B+/ Stable (Reaffirmed)
	Bill Discounting	Short Term	4.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
22-May-18	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 BBB/Stable (Upgraded)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2 (Upgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	

About Acuité Ratings & Research:

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