

Press Release

Jayachandran Industries Private Limited



March 08, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.40	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	7.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	13.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs.13.40 Cr. bank facilities of Jayachandran Industries Private Limited (JIPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account JC Group's moderate business risk profile marked by its experienced promoters, reputed and diversified clientele profile, and recovery in demand leading to improvement in the scale of operations in current year FY2022. The rating also factors the moderate financial risk profile and efficient working capital operations. However, these strengths are partially constrained by the moderate debt protection metrics and presence of competitive industry and susceptibility of profit margins to fluctuation in raw material prices.

About Company

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 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 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.

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.

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.

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

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) 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, 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 EGLP in 1986 with lead smelting unit in Mangalore (Karnataka) and later in 2006 EGLP 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.660.11 Cr in FY2021 as against Rs.708.01 Cr. in FY2020 and Rs.698.09 Cr. in FY2019.

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**

JC Group's financial risk profile is moderate, marked by a modest networth, moderate gearing along with comfortable debt protection metrics. The EBITDA margins of the group has marginally deteriorated to 4.57 per cent in FY2021 against 4.96 in FY2020. The deterioration is attributable to increase in raw material prices, decline in realization and increase in selling overheads during the period. The PAT margins in FY2021 has declined to 1.62 per cent in FY2021 in comparison to 1.73 per cent in previous year. The decline in profitability levels has led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood improved at 2.87 times and 1.67 times respectively in FY2021 as against 3.33 and 2.16 times respectively in the previous year.

The net worth of the group stood at Rs.71.52 Cr as on 31 March, 2021 as against Rs.60.74 Cr as on 31 March, 2020. The improvement is on account of moderate accretion of net profit in the reserves and infusion of equity of Rs.0.07 Cr during the period. The gearing level (debt-equity) stands deteriorated at 1.65 times as on 31 March, 2021 as against 1.10 times as on 31 March, 2020, the deterioration is on account of increase in short term debt during the period.

TOL/TNW (Total outside liabilities/Total net worth) has deteriorated and stands at 2.28 times as on 31 March, 2021 against 2.06 times in previous year. Moderate TOL/TNW is on account of presence of moderately aggressive leverage policy of the group.

The total debt of Rs.117.86 Cr as on 31 March, 2021 consist of Rs.15.88 Cr as long term debt, Rs.25.32 Cr as unsecured loans from promoter group, Rs.70.93 Cr as short term debt and current portion of long term debt of Rs.5.72 Cr. The company is moderately aggressive towards its leverage policy and has been managing the working capital requirements and capex through external borrowings and internal accruals. NCA/TD (Net cash accruals to total debt) stands deteriorated and low at 0.14 times in FY2021 as against 0.28 times in FY2020.

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 operation are comfortable in term of working capital marked by Gross Current Asset (GCA) days of 86 days in FY2021, 61 days in FY2020 and 55 days in FY2019, 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. The debtor collection period of the group stood around a half-month in FY2021 (~ 17 days) as against 20 days in FY2020. The group's inventory levels remained moderate at 56 days as on March 31, 2021 vis-à-vis 30 days as on March 31, 2020 mainly due to the pandemic and procurement of large inventory during the year end. On the other hand, the group has demonstrated ability to promptly serve its creditors. The creditor payback period stands at 17 days as on 31st March, 2021 as against 24 days as on 31st March 2020. The comfortable working capital operations have led to moderate utilization of the consolidate bank lines at about an average of ~65 per cent for the last 8 months through January 2022.

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
- Any further deterioration in working capital and operating margins

Material Covenants

None

Liquidity Position: Adequate

JC Group's liquidity is adequate marked by modest generation of net cash accruals in FY2021 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.16.52-18.78 Cr during last three years ending FY2021 as against its long term debt obligations in the range of Rs.1.50-5.60 Cr for the same period. JC Group's working capital is

efficient as evident from Gross Current Asset (GCA) of 86 days as on March, 2021 as compared to 61 days as on March, 2020. The current ratio stood at 1.36 times as on 31 March 31 2021 against 1.24 times in previous year. JC Group maintained unencumbered cash and bank balances of Rs.1.92 Cr as on March 31 2021 against Rs.3.51 Cr in previous year. Further, JC Group has deposit with bank of Rs.5.32 Cr. The total working capital limit remained moderately utilized at an average of nearly 65 per cent for the 8 months ending January, 2022. Acuité believes that the liquidity of JC Group to remain adequate on account of stable scale of operations and moderate capital structure. JC Group is expected to generate adequate NCAs in the range of Rs.12.10-15.35 Cr. against modest CPLTD of Rs.5.72-7.23 Cr over the medium term.

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 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 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	660.11	708.01
PAT	Rs. Cr.	10.72	12.24
PAT Margin	(%)	1.62	1.73
Total Debt/Tangible Net Worth	Times	1.65	1.10
PBDIT/Interest	Times	2.87	3.33

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

Not Applicable

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Sep 2020	Letter of Credit	Short Term	3.00	ACUITE A2 (Upgraded from ACUITE A4)
	Bills Discounting	Short Term	4.00	ACUITE A2 (Upgraded from ACUITE A4)
	Cash Credit	Long Term	6.40	ACUITE BBB Stable (Upgraded from ACUITE B+ Stable)
27 Jun 2019	Letter of Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	6.40	ACUITE B+ Stable (Reaffirmed)
	Bills Discounting	Short Term	4.00	ACUITE A4 (Reaffirmed)
22 May 2018	Cash Credit	Long Term	6.40	ACUITE B+ Stable (Assigned)
	Bills Discounting	Short Term	4.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Tamilnad Mercantile Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.40	ACUITE BBB Stable Reaffirmed
Tamilnad Mercantile Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2 Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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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