



Press Release
Jayachandran Industries Private Limited
May 28, 2024

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.40	ACUITE BB Stable Downgraded	-
Bank Loan Ratings	7.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	13.40	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**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 downgrade :

The rating downgrade factors in the change in analytical approach which has led to significant deterioration in the business and financial risk profile of the JIPL. The rating considers stable operating performance marked by improving revenue and profitability margins. The company's revenue stood at Rs.76.67 Cr. in FY2023, implying a growth rate of ~9.58 percent against the previous year. Further, the company is estimated to achieve a revenue of Rs.66.55 Cr. in FY2024. The operating profit margins during FY2023 stood at 3.89 percent against 4.20 percent in FY2022. It is estimated that margins will be in the range of 4.45- 4.55 percent in FY2024. The ratings are further supported by the company's efficient working capital management with GCA days of 61 in FY2023.

The rating, however, remains constrained by the below average financial risk profile and modest operating margins and competitive industry.

About the Company

Incorporated in 2009 by Mr. Anbalagan and his four brothers, 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 2400 MT per annum. The day to day operations of the company are managed by Mr. Bharani Kumar (Managing Director).

Unsupported Rating

Not applicable

Analytical Approach

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

In the past rating review's, Acuite had considered the consolidated business and financial risk profile of Jayachandran Alloys Private Limited (JAPL), Eswari Global Metal Industries

Private Limited (EGMIPL), Jayachandran Plastics Private Limited (JPPL), Jayachandran Industries Private Limited (JIPL) together referred as JC Group (JCG) to arrive at the rating.

The deconsolidation is on account of non-cooperation by one of the group company (Jayachandran Alloys Private Limited) for existing SEBI regulations and Policy in respect of 'What Constitutes Non-Cooperation' of Acuité.

Key Rating Drivers

Strengths

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

The promoter 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. This coupled with the addition of Value Regulated Lead Acid (VRLA) batteries, battery plates to its product profile and an increase in exports helped JIPL with 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 the extensive experience of the promoters.

- **Stable scale of operations**

The operating income of the company stood at Rs.76.67 Cr. with YOY growth of 9.57 percent in FY2023 as against Rs.69.97 Cr. in FY2022. The company generates its major revenues from the lead acid batteries segment. The improvement in the revenue in FY2023 is on account of increased volumes. However, it is estimated that in FY2024 revenues will be in the range of Rs.64–66 Cr. The operating profit margins ranged between 3.89–4.20 percent in the last two years ended FY2023. Acuité believes that the scale of operations will continue to be stable over the medium term, backed by healthy demand in the battery industry

- **Efficient Working capital operations**

JIPL's operations are working capital efficient in nature marked by Gross Current Asset (GCA) days of 61 days in FY2023 and 71 days in FY2022 respectively. The working capital cycle remained in the said range on account of the limited credit period offered to the debtors and moderate levels of inventory maintained by the company. Inventory days stood at 49 days as on March 31, 2023, as against 51 days as on March 31, 2022. The debtor day stood at 6 days, as on March 31, 2023, as against 10 days as on March 31, 2022. Subsequently, the payable period stood at 12 days as on March 31, 2023, as against 28 days as on March 31, 2022, respectively. Further, the average bank-limit utilization in the last ten months ended March 24 remained at ~78 percent for 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

- **Below average financial risk profile**

The financial risk profile of the company has remained below average with below average capital structure, gearing and moderate debt protection metrics. The net worth of the company stood low at Rs.5.25 Cr. and Rs.3.86 Cr. as on March 31, 2023, and 2022 respectively. The improvement is on account of accretion of net profit in the reserve. Further, it is estimated that net worth will be ~Rs. 6.79 Cr. in FY2024. The gearing of the company stood at 3.00 times as on March 31, 2023, against 3.93 times as on March 31, 2022. Further it is estimated that the gearing will be improving in FY2024. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 4.21 times and 2.34 times as on March 31, 2023, respectively as against 4.04 times and

2.30 times as on March 31, 2022, respectively. The debt to EBITDA of the company stood at 3.38 times as on March 31, 2023, as against 3.51 times as on March 31, 2022. 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.

- **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. 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 company for procuring its raw material.

Rating Sensitivities

- Growth in scale of operations while maintaining the profitability margins
- Significant elongation in working capital cycle leading to deterioration in liquidity position and financial risk profile

Liquidity Position: Adequate

JIPL's liquidity is adequate marked by moderate generation of net cash accruals in FY2023 to its maturing debt obligations. JIPL has generated cash accruals in the range of Rs.3.01 Cr. in FY2023 as against its long term debt obligations in the range of Rs.0.65 Cr. for the same period. The company is expected to generate adequate NCAs in the range of Rs.2.98-3.40 Cr. in FY2024- 2025 against CPLTD of Rs.0.76-0.74 Cr. over the same period. JIPL maintained unencumbered cash and bank balances of Rs.0.01 Cr. as on March 31, 2023, against Rs.0.78 Cr. in previous year. Further, the average bank limit utilization in the last ten months ended March 24 remained at ~78 percent for fund based. Acuité believes that the liquidity of the company to remain adequate on account of the stable scale of operations and moderate generation of cash accruals.

Outlook: Stable

Acuité believes that JIPL will maintain a 'Stable' outlook over the medium term backed by its experienced management, stable scale operations 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 significant stretch in its working capital management leading to deterioration in financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	76.67	69.97
PAT	Rs. Cr.	1.39	1.12
PAT Margin	(%)	1.81	1.59
Total Debt/Tangible Net Worth	Times	3.00	3.93
PBDIT/Interest	Times	4.21	4.04

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

Not applicable

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>

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
28 Feb 2023	Cash Credit	Long Term	6.40	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A2 (Reaffirmed)
08 Mar 2022	Cash Credit	Long Term	6.40	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A2 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Tamilnad Mercantile Bank Limited	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.40	ACUITE BB Stable Downgraded (from ACUITE BBB)
Tamilnad Mercantile Bank Limited	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.00	ACUITE A4+ Downgraded (from ACUITE A2)

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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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