

Press Release

Jaycee Strips and Fasteners Private Limited

October 01, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 17.00 crore
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 17.00 crore bank facilities of Jaycee Strips and Fasteners Private Limited (JSFPL). The outlook is '**Stable**'.

Incorporated in 1995, Jaycee Strips and Fasteners Private Limited (JSFPL) is an Amritsar-based company promoted by Mr. Suresh Aggarwal. JSFL is engaged in the automobile dealership for Maruti Suzuki and Nexa. The company is also engaged in manufacturing of tractor spare parts as well as manufacturing of agricultural equipment. Some of the products that are manufactured by the company are bolted hitch pin, fixed rear angle bracket, clutch pedal shaft and rotary slasher, to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Jaycee Strips and Fasteners Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

JSFPL was incorporated in 1995. The Directors, Mr. Rakesh Kumar Aggarwal, Mr. Naresh Aggarwal, Mr. Suresh Aggarwal and Mr. Kanav Aggarwal, have more than two decades of experience in the aforementioned industry. Acuité believes that JSFPL will continue to benefit from its long track record of operations and experienced management.

Weaknesses

- **Below average financial risk profile**

JSFPL's financial risk profile is below average, marked by a low net worth, high gearing (debt-to-equity), and average debt protection measures.

JSFPL's net worth has remained low at around Rs. 8.11 crore as on March 31, 2019 (Provisional). The net worth levels have remained low due to average operating margins, which has resulted in limited accretion to reserves over the last three years through FY 2019. Though, the revenues of the company are expected to remain in the range of Rs. 212.96 crore to Rs. 235.63 crore over the medium term, the average operating margins are likely to lead to limited accretion to reserves. Acuité expects the net worth to remain modest in the range of Rs. 8.42 crore to Rs. 10.62 crore over the medium term, in the absence of any equity infusion by the promoters.

The company has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 10.26 times as on March 31, 2018. The leverage levels continue to remain improved to around 9.79 times as on March 31, 2019 (Provisional). The company incurred capex of Rs.17.65 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs. 3.24 crore. The company, on the other hand, generated cash accruals in the range of Rs.1.49 crore to Rs. 3.18 crore over the same period. Lower accruals and accretions to reserves led to higher debt levels as on March 31, 2019 (Provisional).

The revenues of the company decreased by around 10 per cent to Rs. 207.93 crore during 2018-19

(Provisional), while its operating margins remained stable in the range of 3.06 per cent to 4.65 per cent.

The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 (Provisional) were low at 0.04 times and 1.64 times, respectively.

Acuite believes that the financial risk profile of JSFPL will continue to remain below average over the near to medium term.

• **Uneven Revenue Trend**

The revenue of the company remained volatile at Rs. 207.93 crore during 2018-19 as against Rs.229.03 crore in FY2018 and Rs. 200.59 crore in FY2017, while its operating margins improved from 3.06 per cent in FY2018 to 4.65 per cent in FY2019. The NCA/TD and interest coverage ratio for FY 2019 (Provisional) remain modest at 0.04 times and 1.64 times, respectively.

• **Exposure to intense competition in automobile industry**

Automobile is a highly competitive industry due to low entry barriers that results in intense competition from the large number of organized and unorganized players present in the market. Further, the prevailing slow-down in the auto industry is resulting decrease in the order book received from the customers due to the financial crunch in the market. JSFPL derives around 60 per cent sales from its automobile dealership. The company also faces risk from the auto component manufacturing industry due to customer concentration risk arising from high dependence on orders received from major customers including Mahindra & Mahindra and Sonalika. However, the risk is mitigated to an extent on account of established track record of operations.

Rating sensitivity factor

- Significant improvement in financial risk profile, resulting in gearing below 5 times.
- Improvement in revenue, while maintaining profitability margins.

Material Covenants

None

Liquidity position

The company stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 3.18 crore for FY2019 (Provisional), while its maturing debt obligations were Rs. 2.10 crore for the same period. The cash accruals of the company is estimated to remain around Rs. 2.18 crore to Rs. 3.67 crore during 2020-22 against repayment obligations of around Rs. 2.10 crore. The company's working capital operations are intensive marked by gross current asset (GCA) days of 142 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 2.58 crore as on 31 March, 2019 (Provisional). The current ratio stands at 1.11 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain stressed over the medium term on account of low cash accrual against moderate debt repayments over the medium term.

Outlook: Stable

Acuite believes that JSFPL will continue to benefit over the medium term due to its long track record of operations, experienced management and established relations with its customers. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to 'Negative', if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	207.93	229.03	200.59
EBITDA	Rs. Cr.	9.66	7.01	6.91
PAT	Rs. Cr.	1.34	0.05	0.15
EBITDA Margin	(%)	4.65	3.06	3.44
PAT Margin	(%)	0.64	0.02	0.08
ROCE	(%)	9.95	8.93	10.50
Total Debt/Tangible Net Worth	Times	9.79	10.26	9.53
PBDIT/Interest	Times	1.64	1.33	1.32
Total Debt/PBDIT	Times	8.22	9.08	7.83
Gross Current Assets (Days)	Days	142	229	129

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
September 17, 2019	Cash Credit	Long Term	17.00	ACUITE BB- Issuer not-cooperating*
July 10, 2018	Cash Credit	Long Term	17.00	ACUITE BB-/ Stable (Assigned)

*The issuer did not co-operate; based on best available information.

*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	17.00	ACUITE BB-/ Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head- Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Kumar Abhisek Ratings Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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