

Press Release

J M P INDUSTRIES

May 26, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.54.48 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) on the Rs.54.48 crore bank facilities of J M P INDUSTRIES. The outlook is '**Negative**'.

The Jalandhar-based, J M P Industries (JMPI) was founded by Mr. Balraj Kapoor, Mr. Balram Kapoor and Mr. Jatinder Kapoor as a partnership concern in 1980. JMPI is engaged in manufacturing of automobile components mainly for OEMs such as TATA motors, JCB India Limited, Mahindra & Mahindra, Swaraj Suzuki, International Tractors Limited, Punjab Tractors.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the JMPI to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track of operations and experienced promoters**

JMPI is being managed by three partners Mr. Balraj Kapoor Mr. Balram Kapoor and Mr. Jatinder Kapoor who possess extensive experience of almost four decades. The extensive experience of the promoters has helped JMPI establish market position in local market which in turn benefits in securing repeat orders.

Acuité believes that JMPI long operational track record is expected to support in improvement of the business risk profile over the medium term.

- **Improving business risk profile along with reputed customer base**

JMPI has registered turnover of Rs.171.36 crore in FY2019 growth of ~42% from Rs.119.94 crore in FY2018. Further, turnover stood at Rs.85.55 crore in FY2017. The growth is mainly supported by increasing utilization levels year-on-year basis of its installed capacity. The operating margins stood at 8.31% in FY2019 as compared to 8.97% in FY2018. Further, JMPI has achieved revenue of Rs.122.87 crore for the period 10MFY2020.

Over the years the firm has been able to establish long term relations with reputed players in the industry. The firm caters to OEMs which includes JCB India Limited, TATA Motors and Mahindra & Mahindra to name a few. Moreover, JMPI has its manufacturing facilities at Jalandhar which ensures the regular supply of raw material. The firm has easy connectivity to various transportation modes which improves lead-time and facilitates delivery of finished products in a timely manner.

- **Moderate financial risk profile**

The financial risk profile of JMPI is moderate, marked by moderate net worth, moderate gearing and healthy debt protection metrics. The net worth of the firm is moderate at Rs.29.52 crore as on March 31, 2019 as against Rs.24.66 crore as on March 31, 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves. The firm has followed moderate financial policy, the same is reflected through its peak gearing in the past around 1.93 times as on 31 March 2017, and improved marginally to 1.81 times as on March 31, 2019. The group has undergone capital expenditure plan for increasing casting capacity to 750000 pieces per annum from 600000 pieces per annum in FY2019-FY2020. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 3.65 times as on March 31, 2019 as against 3.79 times as on March 31, 2019. The total debt of Rs.53.46 as on March 31, 2019 comprising of working capital borrowings to the tune of Rs.27.44 crore, term loans to the tune of Rs.24.48 crore and unsecured loans

from the promoters to the tune of Rs.1.54 crore. The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) stood at 2.78 times against 2.60 times for FY2018. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- **Working capital intensive cycle**

Despite of improvement, the working capital management is intensive marked by Gross Current Assets (GCA) of 159 days for FY2019 as against 211 days for FY2018. The firm extends clean credit of around 80-90 days to its customers resulting in high GCA days. The debtor and inventory days improved significantly to 41 and 114 for FY2019 from 71 and 123 for FY2018, respectively. Further, the firm enjoys credit period of 67 days for FY2019. As a result, the average utilization of bank limits stood at ~86 percent in the last ten months ended in January, 2020. Acuité believes that the working capital requirements will continue to remain on the same level over the medium term.

- **Competitive industry and susceptibility of the operating performance**

JMPI manufactures automobile components for Heavy Vehicles such as Tractor, JCB and Truck. The automobile industry continues to face pricing pressures and cyclical demand in the original equipment manufacturer (OEM) market. As an auto component supplier for OEMs, JMPI has a limited bargaining power with its customers. Further, the firm faces customer concentration risk, as more than 70 per cent of the revenue is deriving from four major customers such as, JCB India Private Limited, TATA Motors Limited, Mahindra & Mahindra and Swaraj Engines Limited. Acuité believes that JMPI will continue to remain exposed to the volatility in demand for the products and dependency on OEMs.

- **Risk of capital withdrawal**

JMPI is exposed to risk of capital withdrawal considering its partnership constitution. However, there were no significant withdrawals observed during the period under study.

Liquidity Position: Adequate

The firm's liquidity profile is adequate marked by sufficient net cash accruals against its maturing debt obligations. The firm has net cash accruals in the range of Rs.5.85-9.61 crore for past two years through FY2019 against debt obligations around Rs.5.60 crore for the same period. The firm maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2019. The current ratio of the firm stands at 1.18 times as on March 31, 2019. The average bank limit utilization for the past 10 months ended in January, 2020 is ~86 percent. Acuité believes that the liquidity of the company is likely to remain strong over the medium term.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Elongation in working capital cycle.

Material covenants

None

Outlook: Negative

Acuité believes that the JMPI's credit profile would be under pressure on account of slowdown in automobile industry which would result in significant moderation in its key operating parameters over the near to medium term. The rating may be downgraded in case of continued moderation in its profitability margins impairing its liquidity and debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the firm is able to demonstrate significant and sustainable improvement in its revenues and profitability margins while managing its working capital cycle effectively.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	171.36	119.94
PAT	Rs. Cr.	14.24	10.75
PAT Margin	(%)	3.96	4.34
Total Debt/Tangible Net Worth	Times	1.81	1.82
PBDIT/Interest	Times	2.78	2.60

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	21.00	ACUITE BBB- / Negative
Term Loan	Not Available	Not Applicable	Not Available	8.92	ACUITE BBB- / Negative
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB- / Negative
Term Loan	Not Available	Not Applicable	Not Available	11.06	ACUITE BBB- / Negative

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About Acuité Ratings & Research:

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