

Press Release

Jumps Auto Industries Limited

21 March, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.24.37 Cr
Long Term Rating	SMERA BB+/Outlook: Stable
Short Term Rating	SMERA A4+

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating to **'SMERA BB+' (read as SMERA double B plus)** and short term rating to **'SMERA A4+' (read as SMERA A four plus)** on the Rs. 22.80 crore bank facility of Jumps Auto Industries Limited (Jumps Auto). Further, SMERA has also assigned long term rating of **'SMERA BB+' (read as SMERA double B plus)** on the Rs. 1.57 crore bank facility. The outlook is **'Stable'**.

The ratings continue to draw comfort from the experienced management, healthy financial risk profile and established relations with customers. However, the ratings are constrained by the company's moderate scale of operations in a highly competitive segment of the auto ancillary industry. The ratings also note the susceptible to volatility in raw material prices and cyclical in the auto industry.

The Gurgaon-based Jumps, incorporated in 1999 was converted into a public limited company in 2004 and is promoted by Mr. Joginder Pal Malhotra and Mr. Sanjay Malhotra. The company is engaged in the manufacture and export of auto electric components for commercial vehicles, tractors and stationary engines. The group caters to the domestic as well as overseas market including United Kingdom, United States of America, South Africa, France, Germany etc. It caters to original equipment manufacturers (OEMs), Tier I suppliers and the aftermarket. The product range includes starter motors, alternators, solenoid switches, and armatures to name a few.

Jumps, through its wholly owned German subsidiary viz. Bhavya Jumps GmbH, acquired 100 per cent stake in Honasco Kunststofftechnik GmbH & Co KG (Honasco) in January, 2015 i.e. Q1CY2015. Honasco, a limited liability partnership concern, manufactures injection moulded plastic mainly for the automotive industry as Tier II supplier. It also caters to the household appliance industry and other industries. Major customers are Johnsons Control, Rollax GmbH & Co. KG and Bosch Siemens Hausgeräte Group located in Germany and Poland.

Jumps and its wholly owned German subsidiary, viz. Bhavya Jumps GmbH are referred to as the 'Jumps group'.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management

Jumps group has established track record of around two decades in the auto ancillary industry. The group benefits from the extensive experience of the management which includes Mr. Joginder Pal Malhotra (Chairman) Mr. Sanjay Malhotra (Managing Director in Jumps and Honasco) collectively possess more than three decades of experience in the auto ancillary industry. Further, the key functions are professionally managed by experienced managers who have relevant domain knowledge and have been working with the company for a reasonable period of time. The established presence in the industry and experienced management has helped the group to maintain long standing relationships with some of leading OEMs and tier one manufacturers in automotive segments including Prestolite Electric Limited, Wetherill Associates Inc., Deere & Co, SAS ACR Group etc. In the international market segment the group has already gained approval of three major OEM tractor manufacturers and in domestic market the group has received approvals from four leading manufacturing including Tractor and Farm Equipments Limited, Force Motors Limited, Copper Corporation Private Limited and Action Construction Equipments Limited.

SMERA believes that the group will maintain stable business risk profile over the medium term on account of its extensive experience of the management and demand in auto ancillary segment.

Moderate financial risk profile alongwith comfortable liquidity position

The financial risk profile of the group is moderate marked by tangible networth of Rs. 12.82 crore as on 31st March, 2017 as against Rs. 9.99 crore in the previous year. The adjusted debt-to-equity position stood at 2.48 times as on 31st March, 2017 as against 3.37 times in the previous year. For arriving at the adjusted debt-to-equity, the unsecured loan from promoters have been considered as part of the equity as same is subordinate to bank debt. The total debt of Rs. 31.76 crore as on 31st March, 2017 includes long term borrowings of Rs.16.93 crore, unsecured loan from related parties of Rs. 1.27 crore and short term borrowing of Rs. 13.56 crore. The long term borrowing includes only foreign currency denominated loan and short term borrowings includes Rs. 6.03 crore as foreign currency denominated loan and remaining is in Indian currency loan.

The interest coverage ratio stood at 3.39 times for FY 2017 as against 2.55 times in the previous year. The debt service coverage ratio stood at 2.09 times for FY 2017 as against 2.10 times in the previous year. The working capital cycle is comfortable at 29 days for FY 2017 as against 4 days in the previous year. Further, the liquidity position of the company is comfortable with average cash credit limit of around 78 percent for the last six months ended as on January, 2018.

Going forward, SMERA expects improvement in the financial risk profile of the group driven by improvement in net cash accruals of the foreign subsidiary and the absence of major debt funded capital expenditure plan.

Weaknesses

Susceptibility of the revenue to cyclicity in the end user industry

The overall revenue of the group stood at Rs. 171.95 crore for FY 2017 as against Rs. 180.76 crore in FY 2016; thereby registering a decline of ~ 5 percent in FY 2017 over the previous year. Around 77 percent of the revenue is derived from the German based subsidiary Bhavya Jumps and remaining is derived from Indian based company Jumps Auto Industries Limited. The decline is mainly on account of slowdown in customer orders in Bhavya Jumps as its operating income stood at Rs. 132.62 crore for FY 2017 as compared to Rs. 140.20 crore in the previous year. Bhavya Jumps mainly caters to the automotive industry. Bhavya Jumps has reported moderate growth in revenue as same stood at Rs. 140.22 crore (provisional) for CY2017 whereas Jumps Auto Industries Limited reported Rs. 30.57 crore during April, 2017 to December, 2017. Going forward, the ability of the group to acquire new customers and orders will remain key rating sensitivity factor.

Margins susceptible to volatility in foreign exchange rate

The group reported operating margin of 4.74 percent for FY2017 as against 2.45 percent in the previous year. The improvement in margins is on account of decline in employee cost by ~16 percent in FY 2017 over FY 2016 alongwith other manufacturing expenses in FY 2017. Going forward, the group is expected to report improvement in operating margin and same is expected to remain in the range of 4~6 percent. The improvement is driven by overall decline in material, employee, other manufacturing and sales expenses in German based company Bhavya Jumps.

The group has reported revenue of Rs. 171.96 crore for FY 2017 which includes revenue of Rs. 34.83 crore from Indian based company Jumps and foreign currency denominated revenue of Rs. 135.94 crore for FY 2017. Besides the revenue booked in Bhavya Jumps, for the parent company the major revenue is derived from exports. The foreign currency liabilities & assets in same currency lead to natural hedge. However the residual foreign currency exposure is vulnerable to fluctuations in the foreign exchange rate.

Further, JumpsAuto Industries Limited has also rejigged its investments in the foreign based subsidiary to avail tax benefits. The investment in the foreign based subsidiary is expected to reduce going forward.

Analytical approach:

For arriving at the rating, SMERA has combined the financial and business risk profiles of Jumps and its wholly owned German subsidiary, viz. Bhavya Jumps GmbH collectively referred to as the 'Jumps group'. Bhavya Jumps GmbH acquired 100 per cent stake in Honasco Kunststofftechnik GmbH & Co KG (Honasco) in January, 2015.

Outlook: Stable

SMERA believes that the Jumps group will maintain its stable business risk profile on account of its established presence and extensive experience of the management in the auto ancillary segment. The outlook may be revised to 'Positive' in case of significant growth in revenue and improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant decline in net cash accruals leading to deterioration in financial risk profile and liquidity profile of the group.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

About the Rated Entity –Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
		(Consolidated)*	(Consolidated)*	(Standalone)
Operating Income	Rs. Cr.	171.96	180.76	35.19
EBITDA	Rs. Cr.	8.15	4.42	2.82
PAT	Rs. Cr.	2.74	0.06	0.32
EBITDA Margin	(%)	4.74	2.45	8.01
PAT Margin	(%)	1.59	0.03	0.90
ROCE	(%)	13.27	5.53	9.31
Total Debt/Tangible Net Worth	Times	2.48	3.37	2.18
PBDIT/Interest	Times	3.39	2.55	3.41
Total Debt/PBDIT	Times	3.81	7.54	8.88
Gross Current Assets (Days)	Days	129	102	184

*Includes the consolidated financials of Jumps Auto Industries Limited and its wholly owned German subsidiary, viz. Bhavya Jumps GmbH are referred to as the 'Jumps group'.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
5 th June, 2015	Cash Credit	Long Term	2.80	SMERA BB+/Stable (Assigned)
	Term Loan	Long Term	18.57	SMERA BB+/Stable (Assigned)
	Post Shipment Credit	Short Term	3.00	SMERA A4+ (Assigned)
9 th September, 2016	Cash Credit	Long Term	3.87 (enhanced from Rs. 2.80 crore)	SMERA BB+/Stable (Reaffirmed)
	Term Loan	Long Term	17.50 (reduced from Rs. 18.57 crore)	SMERA BB+/Stable (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	SMERA A4+ (Reaffirmed)
14 th February, 2018	Cash Credit	Long Term	3.87	SMERA BB+ Issuer not co- operating*
	Term Loan	Long Term	17.50	SMERA BB+ Issuer not co- operating*
	Post Shipment Credit	Short Term	3.00	SMERA A4+ Issuer not co- operating*

**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. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	4.80 (enhanced from Rs. 3.87 crore)	SMERA BB+/Stable (Reaffirmed)
Term Loan	N.A	N.A	N.A	15.00 (reduced from Rs. 17.50 crore)	SMERA BB+/Stable (Reaffirmed)
Post Shipment Credit	N.A	N.A	N.A	3.00	SMERA A4+ (Reaffirmed)
Proposed Cash Credit	N.A	N.A	N.A	1.57	SMERA A4+ (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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