

February 27, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	18.50	SMERA BB-/Stable (Assigned)
Term Loan	0.74	SMERA BB-/Stable (Assigned)
Letter of Credit	15.00	SMERA A4+ (Assigned)
Letter of Guarantee	0.75	SMERA A4+ (Assigned)

SMERA has assigned ratings of **‘SMERA BB-’ (read as SMERA double B minus)** and **‘SMERA A4+’ (read as SMERA A four plus)** to the Rs.34.99 crore bank facilities of Jadia Pipes (India) Limited (JPIL). The outlook is **‘Stable’**. The ratings are constrained by the company’s low profitability and weak debt protection metrics amidst intense competition prevalent in the pipes and tubes industry. The ratings are also constrained by the company’s working capital-intensive operations. The ratings factor in the susceptibility of the company’s profit margins to volatility in raw material prices. However, the ratings are supported by the recent machinery modernization project undertaken by the company. The ratings are also supported by the company’s experienced management.

JPIL, established in 1985, is a Haryana-based company engaged in manufacturing of electric resistance welded (ERW) pipes and unplasticized polyvinylchloride (uPVC) pipes. JPIL’s net profit margin is low at 0.13 per cent in FY2012–13 (refers to financial year, April 01 to March 31) due to high interest expense. The company has weak debt protection metrics, as reflected in low interest coverage ratio of 1.23 times in FY2012–13. JPIL’s leverage stands at 3.71 times as on March 31, 2013. The company’s total debt (of Rs.26.84 crore as on March 31, 2013) mainly includes working capital loans. JPIL’s average utilisation of working capital limit is high at 92.84 per cent during June 2013 to November 2013. The company’s total debt (of Rs.26.84 crore as on March 31, 2013) includes unsecured loans of Rs.8.50 crore, which are subordinated to bank debt.

JPIL is a mid-sized player in a highly competitive pipes and tubes industry. The company’s operations are working capital-intensive as it offers liberal credit terms to customers while payments to suppliers are mostly made in advance or against letter of credit. JPIL’s profitability is susceptible to volatility in prices of key raw materials, which include steel and PVC resin. The company’s revenues increased at a muted compound annual growth rate (CAGR) of ~6 per cent during the past four years, mainly on account of interruption in production for machinery modernization undertaken during FY2010–11. However, JPIL’s revenues and operating profit margins improved after implementation of the machinery modernization project. The company’s revenues increased from Rs.126.35 crore in FY2011–12 to Rs.138.78 crore in FY2012–13. JPIL’s operating profit margin improved from 2.73 per cent in FY2009–10 to 3.84 per cent in FY2012–13.

JPIL benefits from its experienced management. Mr. Lalit Kumar Goyal, managing director of JPIL, has around 40 years of experience in the pipes and tubes industry.

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Outlook: Stable

SMERA believes that JPIL will maintain a stable business risk profile over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations while achieving better operating profit margins and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability amidst intensifying competition in its area of operation, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the company

JPIL, incorporated in 1985, is a Haryana-based company engaged in manufacturing of ERW (black and galvanised) pipes and uPVC pipes. JPIL has a manufacturing unit in Haryana, with total installed capacity of 38,000 metric tonnes per annum (MTPA) for ERW pipes and 4,000 MTPA for uPVC pipes.

At present, the operations of the company are managed by Mr. Lalit Kumar Goyal, Mr. Mohinder Kumar Goyal, Mr. Atul Aggarwal, Mr. Vikas Aggarwal and Mr. Ashutosh Goyal.

For FY2012-13, JPIL reported PAT of Rs.0.18 crore on operating income of Rs.138.78 crore, as compared with PAT of Rs.0.14 crore on operating income of Rs.126.35 crore for FY2011-12. JPIL's net worth stood at Rs.7.24 crore as on March 31, 2013, as compared with Rs.5.56 crore a year earlier.

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