

## Finolex J-Power Systems Limited

January 05, 2022

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	22.75 (Enhanced from 9.90)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	25.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed
Short Term Bank Facilities	74.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	121.75 (Rs. One Hundred Twenty-One Crore and Seventy-Five Lakhs Only)		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Finolex J-Power Systems Limited (FJSPL) continues to derive strength from strong parentage of the joint venture (JV) partners – Finolex Cables Limited (FCL) and J-Power Systems Corporation (Japan) (JPS) which is a wholly-owned subsidiary of Sumitomo Electric Industries Limited, Japan (SEIL); both being leading manufacturers of electrical and communication cables and the demonstrated financial support by the promoters by way of regular equity capital infusion. The ratings strengths are, however, constrained by FJPL's small scale of revenue, continuous loss-making operations, working capital intensive nature of operations, thin outstanding order book rendering limited revenue visibility.

**Positive factors:** - Factors that could lead to positive rating action/upgrade:

- Considerable rise in Total Operating Income beyond Rs.180.00 crore and generating profit at the operating level.

**Negative factors:** *Factors that could lead to negative rating action/downgrade*

- Decline in total operating income below Rs.50 crore and operational losses increases from current level on a sustained basis.
- Any further weakening of parent's credit profile
- Cessation of the constant support from the parent companies

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Strong Parentage and demonstrated financial support.

FJPL is a joint venture (51:49) between Japan based J-Power systems corporation (JPS) and Pune (Maharashtra) based Finolex Cables Limited. JPS, a wholly owned subsidiary company of Sumitomo Electric Industries Limited (SEIL) is a Japan based global major in XLPE EHV cable manufacturer providing access to best technology coupled with access to global markets while FCL is India's leading manufacturer of electrical and communication cables which find applications in areas including building wiring, automobiles, lighting, cable TV, telephone, computers to industrial applications. The promoters have exhibited ability and commitment towards FJPL through equity infusion to support debt servicing obligations. The promoters of the company have infused Rs.50.00 crore during FY21. The support in the form of equity infusion as and when required is expected to continue in future.

##### Limited exposure to raw material volatility from orders backed by price variation clause

FJPL's major raw materials constitute Copper, Aluminium, Cross-linked Polyethylene (XLPE), Compound, Tapes and Drums with around 70%-75% of total raw material costs been contributed by Copper and Aluminium. FJPL has a price variation clause in its price quote at the tender stage, thereby protecting itself against adverse raw material price movements.

##### Comfortable Capital structure and debt coverage indicators (supported by funds infusion from parents)

The debt-to-equity ratio remain comfortable at 0.15x as on March 31, 2021, as compared to 0.12x as on March 31, 2020. The overall gearing improved and remained comfortable at 0.37x as on March 31, 2021, as compared to 0.53x as on March 31, 2020. The increase in the equity contribution from the parents during FY21 primarily helped the company to keep the gearing level stable and maintain it at below unity. During FY21, there has been substantial equity infusion done by the JV partners to the tune of Rs.50 crore as on March 31, 2021. The repayments and interest servicing of the same have been funded through the promoter's funds on account of tight accruals. The debt coverage indicators are in negative as the company is making losses at its operating level. Equity infused by promoters during past years:

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and in other CARE Ratings Ltd.'s publications.

Company Name	FY15 (A)	FY16 (A)	FY17 (A)	FY18 (A)	FY19 (A)	FY20 (A)	FY21 (A)
Finolex Cables Limited (49%)	12.25	23.28	19.60	15.93	18.87	43.37	24.50
J-Power Systems Corporation (51%)	12.75	24.22	20.40	16.57	19.63	45.13	25.50
<b>Total Equity infused during the year</b>	<b>25.00</b>	<b>47.50</b>	<b>40.00</b>	<b>32.50</b>	<b>38.50</b>	<b>88.50</b>	<b>50.00</b>

Parent support in the form of equity infusion help the company to keep the gearing level stable & sustainable.

#### Key Rating Weaknesses

##### Standalone financial risk profile marked by small scale of operations and continuing losses.

Due to COVID19 outbreak, turnover of the company got severely impacted by 25% in FY21 and stood at Rs.50.56 crore as compared to Rs.68.32 crore in FY20. During FY21 the major cost of raw material is 66.00% of TOI This has resulted in operating loss during FY21. Furthermore, the quantum of loss increased in FY21 in comparison to FY20 on account of impact shutdown due to COVID restrictions and hence lower ability to recover the fixed cost. During FY21, the company has incurred net losses to the tune of Rs. 31.34 crore which is comparatively higher than the loss incurred in FY20 of Rs. 27.44 crore. However, during H1FY22, the company has registered a turnover of 48.35 crore (96% of the FY21 turnover & 34% of the FY22 Projected). Company continues to book operational losses; however, the loss has reduced.

##### Modest order book position, rendering medium term revenue visibility

The total order in hand as on November 30, 2021 (in terms of quantity to be supplied) is 175km. Out of this 175km, 133km is produced and dispatched. The total order in value terms was at Rs.109 crore. The order execution timeline generally ranges between 150-180 days, depending on the type of order. The moderate order book position and expected order inflow provides revenue visibility in the medium term.

##### Competitive nature of industry

The Indian cable industry is highly competitive and fragmented with a large number of cable producers in both organized and unorganized sector, leading to the pressure on prices and limited ability to pass on the increase in the raw material prices, especially in the tender-based business. FJPL product offering span across the range from (66kV-400kV) however the overall market opportunity in the higher 'Kv' rating is restricted (around 5% of overall market opportunity) where FJPL has a prominent presence. Furthermore, India 's electrical equipment industry continues to witness significant growth in the last few years.

##### Working Capital Intensive Nature of Operations

The company is majorly dependent upon working capital borrowings to meet its short-term requirements and has highly working capital-intensive nature of operations. FJSPL's operating cycle deteriorated to 377 days during FY21 (PY: 193 days). The average collection period remained high at 340 days in FY21 as compared to FY20. Further, the creditor period has deteriorated to 74 days in FY21 to 57 days in FY20. The nature of business of the company demands it to invest for at least 200 days, which starts from manufacturing of the cables, give advance to the vendors, get it to the site and then the laying work is carried out. So, going ahead with more orders in hand, the level of inventory in the books will remain at high at current levels.

##### Liquidity: Stretched (supported by funds infusion from parents)

Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and low cash balance. However, comfort can be drawn from the support extended by parents in terms of fund infusion to meet the working capital requirements. The company is utilizing its working capital limits at 90% for last 12 months ended November 30, 2021. Current ratio improved and stood at 1.68x as on March 31, 2021, as against 1.32x as on March 31, 2020. Free cash and bank balances as on September 30, 2021, stood at Rs.0.11 crore. Efficient management of working capital cycle and improvement in liquidity position is a key rating sensitivity.

##### Analytical approach: Standalone: the rating also factors in the demonstrated parent support in the form of equity infusion in the past.

##### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

##### About the Company

FJPL, incorporated in January 2008, is a Joint-venture (JV, 51:49) between Japan based J-Power Systems (JPS) and Pune based Finolex Cables Limited. FJPL is engaged in manufacture and market of cross-linked polyethylene (XLPE) insulated extra high voltage (EHV) ratings ranging from (66 Kilovolts (kV) to 500 kV) cables using the VCV (Vertical Continuous Vulcanizing) technology and other power accessories and provides turnkey solutions cables. The manufacturing facility of the company is located at Shirwal near Pune.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	68.31	50.56	48.35
PBILDT	-9.12	-12.29	-0.85
PAT	-27.44	-31.34	NA
Overall gearing (times)	0.53	0.37	0.57
Interest coverage (times)	-0.94	-1.23	NM

A: Audited, UA: Unaudited, NM: Not Meaningful

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2024	22.75	CARE BBB-; Stable
Fund-based/non-fund-based-LT/ST		-	-	-	25.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantees		-	-	-	24.00	CARE A3
Fund-based - ST-Working Capital Demand loan		-	-	-	50.00	CARE A3

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	22.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jan-21)	1)CARE BBB-; Stable (12-Feb-20)	1)CARE BBB-; Stable (14-Mar-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	25.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (07-Jan-21)	1)CARE BBB-; Stable / CARE A3 (12-Feb-20)	1)CARE BBB-; Stable / CARE A3 (14-Mar-19)
3	Non-fund-based - ST-Letter of credit	-	-	-	-	-	-	1)CARE A3 (14-Mar-19)
4	Non-fund-based - ST-Bank Guarantees	ST	24.00	CARE A3	-	1)CARE A3 (07-Jan-21)	1)CARE A3 (12-Feb-20)	1)CARE A3 (14-Mar-19)
5	Fund-based - ST-Working Capital Demand loan	ST	50.00	CARE A3	-	1)CARE A3 (07-Jan-21)	1)CARE A3 (12-Feb-20)	1)CARE A3 (14-Mar-19)

**Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
NA	NA
<b>B. Non-financial covenants</b>	
1. Non-Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 20 <sup>th</sup> of succeeding quarter, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
2. Non submission of Financial Statement of previous year within 6 months of closure of financial year	Will attract penal interest as applicable, at rates circulated from time to time.
3. Account remains overdrawn due to irregularities such as nonpayment of interest, nonpayment of installments within one month of falling due, reduction in drawing power, excess borrowing due to over limit.	Will attract penal interest as applicable, at rates circulated from time to time.

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Working Capital Demand loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-Bank Guarantees	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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