Jay Ushin Limited

January 15, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	44.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	66.00	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable/ A Four Plus)	Reaffirmed
Total Bank Facilities	**110.00 (Rs. One Hundred Ten Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Jay Ushin Limited (JUL) are constrained by moderation in scale of operations during FY20 (refers to the period from April 1 to March 31) and the current year due to subdued auto demand in wake of business disruption caused by Covid-19 pandemic adversely impacting the operations of Auto and its ancillary segments, low profitability margins and operations necessitating regular capex. The ratings are also takes into cognizance JUL's moderate financial risk profile characterized by high overall gearing and susceptibility to volatility in raw material prices. However, the ratings derive comfort from extensive experience of promoters, long track record of operations and reputed clientele. The rating also factors in technical assistance JUL receives from Ushin Limited and established market position of the company by virtue of being part of JPM group.

Rating Sensitivities

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

- Significant improvement in the cash accruals above Rs. 30.00 crore on sustained basis.
- Healthier capital structure with gearing lower than 1.50x

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

- Cash accruals lower than Rs. 12 crore leading to weak liquidity.
- Deterioration in the capital structure of the company with overall gearing above 2.80x.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderation in scale of operation and low profitability margins: Sluggish demand in the automobile industry and subsequent outbreak of Covid-19 pandemic adversely impacted the operations of the company in FY20 and H1FY21 (refers to the period: April 01 to September 30), resulting in decline in the total operating income to Rs. 671.59 crore during FY20 and Rs. 193.84 crore in H1FY21 (FY19: Rs. 863.08 crore and H1FY20: Rs. 355.97 crore). The PBILDT margin stood low at 5.12% in FY20 (PY: 4.99%). JUL reported net loss of Rs. 18.98 crore during H1FY21 owing to the fact that operations of the company were closed during almost entire Q1FY21 (refers to the period: April 01 to June 30). However, the performance improved during Q2FY21 (refers to the period from July 01 to September 30) supported by uptick in the auto demand ahead of the festive season.

Moderate financial risk profile: The overall gearing remained high at 2.17x as on March 31, 2020 (March 31, 2019: 2.37x) owing to huge long term borrowing on the company as a result of regular capital expenditure requirement of the operations. Total Debt to GCA of the company further deteriorated to 7.40x as on March 31, 2020 from 5.81x in as on March 31, 2019, the moderation is on account of lower cash accruals as a result of subdued demand in the automobile industry. JUL's interest coverage ratio stands adequate at 2.21x for FY20 (PY: 2.68x).

Capex oriented nature of operating segment: JUL is operating in a segment where, it has to invest in product designing, sourcing the raw material and setting up facility for manufacturing of new developed product. In view of the same, the company regularly undertakes capex ranging between Rs. 10 crore to Rs. 25 crore every year. In FY20, JUL spent ~Rs. 36 crore towards capital expenditure the expenditure was partially funded by internal accruals along with proceedings from sale of machinery and mold and partially from bank debt. However, due to the outbreak of Covid-19 pandemic no major capex will be undertaken in FY21.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Susceptibility to volatility in the raw material prices: The raw material used in the production of door latches, switches and lock sets is primarily zinc & aluminium (~35% of total purchases), copper (~20% of total purchases) and plastic granules (~10% of total purchases). The raw material cost to the company is ~82% of total production cost in FY20 (FY19: ~85%). Further, since the orders with customers are revised only quarterly, there is a time lag of a quarter to pass on the raw material price changes, the company remains exposed to adverse movement in raw material prices.

Key Rating Strengths

Experienced promoters with long track record of operations: JUL was promoted in 1986 by Mr. J. P. Minda along with his son Mr. Ashwani Minda to manufacture automotive components. The company is part of automotive ancillary conglomerate JPM Group. Mr. J. P. Minda is B. E. (Electrical) BITS, Pilani and holds 60 years of experience in automotive components industry. Mr. Ashwani is B. Tech from IIT, Delhi with an experience of 33 years in the industry.

Reputed client base with long term long term relationship albeit concentration: The company is supplier to reputed Original Equipment Manufacturers (OEM's) including Maruti Suzuki, Hyundai Motors, Renault Nissan, Hero Motocorp. The top ten customers contributed ~83.90% towards total revenue of the company during FY20 (PY: 84.70%). The strong tie-ups benefit the company in terms of assured demand from the clients.

Technical assistance from Ushin Limited, Japan: JUL is a joint venture between JPM group and Ushin Limited (Japan). Ushin Limited provides technical assistance to the JV, which helps it to be ahead of its competitors and be the preferred supplier for the OEMs because of its association with the Japanese company. JUL pays royalty and fees for technical know-how. Additionally, JUL spent Rs. 3.70 crore in FY20 (PY: Rs. 4.36 crore) towards Research and Development.

Established market position in the automobile components industry: JUL has established market image and is a Tier-1 supplier to almost all major 4-wheeler and 2-wheeler OEMs. The dominance of JUL in Indian market and association with JPM Group provides revenue visibility for future. The company is receiving repeat orders from these OEMs for the supply of door latches and lock sets. The door latches and lock sets supplied by the company find application in the following popular car models which includes WagonR, Swift, Ertiga, Alto, Dezire, Amaze, Mobilio, Honda City.

Liquidity: Stretched

The temporary closure of business operations during Q1FY21 due to lockdown impacted the liquidity of the company. The company has been curtailing several non-essential expenses to conserve cash. JUL has availed both the moratoriums under RBI's Covid-19 relief package. The fund based limits of JUL stood at 77% for the trailing 12 month period ending November, 2020. Besides, the company also generated additional cash flow to the tune of around Rs. 3.50 crore from sale of old casts, moulds and fixed assets during 9MFY21 (refers to the period: April 01 to December 31) which provided support to the liquidity. Balance of free cash and cash equivalent as on September 30, 2020 was Rs. 0.48 crore. The company has no plans to undertake any major capital expenditure in FY21. The company has scheduled debt repayment of Rs. 14.61 crore in FY21 after considering the moratorium availed by the company.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology – Auto Ancillary Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Notching by factoring linkages in ratings

About the Company

Jay Ushin Ltd. (JUL) was incorporated in 1986, promoted by Mr. J. P. Minda, chairman of JPM group. It is a joint venture between JPM group and Ushin Ltd. Japan to carry out the business of auto components manufacturing. The company is engaged into manufacturing of door latches, combination switches, locks and key sets and heater control panels. The JPM group is into manufacturing of auto components for both two and four wheelers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	863.08	671.59
PBILDT	43.03	34.35
PAT	11.54	2.64
Overall gearing (times)	2.37	2.17
Interest coverage (times)	2.68	2.21

A: Audited

Status of non-cooperation with previous CRA: Brickwork vide PR dated June 29, 2020
Any other information: Nil
Rating History for last three years: 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	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	44.00	CARE BB+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	66.00	CARE BB+; Stable / CARE A4+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	44.00	CARE BB+; Stable	1)CARE BB+; Stable (04-May-20)	-	-	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	66.00	CARE BB+; Stable / CARE A4+	1)CARE BB+; Stable / CARE A4+ (04-May-20)	-	-	-

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

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

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