

Jash Engineering Limited

January 4, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities*	92.12 (enhanced from 77.67)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Short-term Bank Facilities	5.56	CARE A2 (A Two)	Revised from CARE A2+
Long-term / Short-term Bank Facilities*	50.50 (enhanced from 43.50)	CARE A-; Negative / CARE A2 (Single A Minus; Outlook: Negative / A Two)	Revised from CARE A-; Negative / CARE A2+ (Single A Minus; Outlook: Negative / A Two Plus)
Total	148.18 (Rupees One Hundred Forty Eight crore and Eighteen lakh only)		

Details of instruments/facilities in Annexure-1

**Reclassified bank facilities of Rs.24.00 crore from Long-term / Short-term to Long-term.*

Detailed Rationale & Key Rating Drivers

The revision in short-term rating of Jash Engineering Limited (JEL) is on account of increase in its working capital intensity and lower than envisaged cash accruals during FY18 (refers to the period April 01 to March 31) resulting in deterioration in the liquidity position and increase in reliance on bank borrowings for working capital requirements. The state of affairs also resulted in deterioration of short-term debt coverage indicators during FY18 (FY refers to the period April 1 to March 31).

The ratings assigned continue to derive strength from JEL's established track record of operations in manufacturing of water/waste water management equipment, various technical and financial collaborations with various global equipment manufacturers, diversified and healthy consolidated order book, vast experience of the promoters and their association with diversified and reputed clientele.

The ratings also take cognizance of teething issues faced by JEL in the highly regulated water control and waste management industry of the USA post acquisition of "Rodney Hunt", the promoters' efforts to address operational issues & improve overall production efficiency, improvement in financial performance during H1FY19 and good growth prospects of the industry in the domestic and international market.

The ratings, however, continue to remain constrained on account of JEL's moderate scale of operations, working capital intensive nature of operations due to high level of customization in products manufactured & high inventory holding period and vulnerability of its income to timely off-take of products by the clients. JEL further remains exposed to inherent cyclicity in the infrastructure industry, and susceptibility of its profitability to volatile raw material prices and foreign exchange (FOREX) rates.

JEL's ability to increase its scale of operations by leveraging upon its technical collaborations & recent acquisition, expand its geographical reach by catering to wider markets, improve its profitability while maintaining its comfortable capital structure and efficiently managing its incremental working capital requirements would be the key rating sensitivities.

Furthermore, improvement in its liquidity position through realisation of sale proceeds of excess land of Rodney Hunt, completion of Unit IV at SEZ pithampur within envisaged cost and time parameters shall also be crucial from the credit perspective.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Outlook: Negative

The outlook on the ratings of JEL has been reaffirmed at 'Negative' on account of challenging macroeconomic environment in the domestic market and concerns over the performance of US subsidiary Jash USA Inc. in the medium term and its impact on JEL at a consolidated level.

The outlook may be revised to 'Stable' in case of improvement in JEL's scale of operations along with subsidiaries turning profitable, resulting in improved cash accruals, liquidity and strengthening of its debt coverage indicators.

Detailed description of the key rating drivers

Increase in working capital-intensity and moderate liquidity: JEL's operations have high working capital intensity primarily due to its presence in the infrastructure-based engineering industry. JEL has an inventory of approximately 120-140 days on account of high degree of customization of its orders which are executed from three manufacturing units. Furthermore, Increase in working capital intensity on account of USA operations and lower than envisaged cash accruals during FY18 resulted in moderation in overall liquidity of the company. JEL reported negative cash flow from operating activities of Rs.(8.20) crore on a consolidated basis during FY18 as against Rs.21.08 crore in FY17. Incremental working capital requirements were met through IPO proceeds and bank borrowings. On a consolidated basis, the receivables and inventory holding increased further as on September 30, 2018. The average of utilisation of its fund-based working capital facilities remained moderate at 75% during the trailing 12 months ending on October 2018. As on December 26, 2018, JEL had free cash & bank balance of around Rs.1.75 crore.

Key Rating Strengths

Vast experience of the promoters and Board of Directors: The promoters of JEL have over three decades of experience in manufacturing, marketing and designing of engineering products related to the water management industry. The Chairman and Managing Director of the company, Mr Laxminandan Amin, is a mechanical engineer who has vast experience of over five decades in the manufacturing of engineering products. Mr Pratik Patel, Managing Director, a production engineer and Master in Business Administration (MBA) in finance, possess total experience of over two decades in manufacturing water control gates, screening and process equipment for waste and waste water industry. The promoters are ably assisted with qualified board of directors having rich experience in the engineering and infrastructure industry.

Established position in water management industry, reputed clientele and diverse geographical presence: JEL has an established track record of around four decades in the water and waste water equipment industry. JEL offers services across the entire production chain including Design, Casting, Fabrication, Assembly & Testing.

JEL's clientele is fairly diversified and comprises of reputed players in infrastructure industry. The company has a diverse geographical presence with 34% of its standalone income earned through exports in FY18 (30% in FY17 and 17% in FY16), with major focus on US market from FY18 onwards. Of the total exports in FY18, around half where to US market. Apart from US market, significant exports were also made to Hong Kong, Singapore, UK and Canada.

Technical and financial collaboration with multiple international manufacturers along with strategic foreign acquisitions: Over the years, apart from building in-house manufacturing capability, JEL also entered into technical & financial collaboration with multiple foreign manufacturers to expand its product portfolio, geographical reach and provide end-to-end solutions for water & waste water industry and bulk solid handling segment in India and abroad. JEL acquired the entire shareholding in Mahr Maschinenbau - Austria (in FY15) and strengthened its foothold in the highly-regulated water management market in USA through acquisition of the 176 years old "Rodney Hunt" brand, IP and designs from VAG USA LLC, USA (in FY17) and its manufacturing facility (in FY18). These foreign acquisitions and collaborations have enabled JEL to achieve a technical edge in the products manufactured and supplied in both the domestic and international markets.

Growth in scale of operations, albeit moderate profitability: JEL's consolidated TOI grew by 10.41% y-o-y in FY18 to Rs.178 cr. with sustained order execution and growth in exports. However, it was still lower than envisaged owing to slower inspection and pickup from domestic clients and initial teething issues faced in US, since it was the first year of operations. During H1FY19, JEL's consolidated TOI almost doubled to Rs.112.91 crore as against Rs.58.44 crore in H1FY18 primarily on account of execution of pending orders in the domestic market and higher orders from USA.

JEL's profitability dipped significantly during FY18 owing to losses in overseas subsidiaries, increase in employee base and higher freight expense. The consolidated PBILDT margin dipped from 14.88% in FY17 to 6.49% during FY18. However, profitability improved marginally to 8.99% during H1FY19 (8.49% in H1FY18), primarily due to increase in TOI.

Healthy order book: JEL's consolidated order book stood at Rs.207.22 crore as on November 30, 2018 as against Rs.217.52 crore as on May 31, 2017. Order book to consolidated total operating income (TOI) of FY18 was 1.16x, indicating moderate revenue visibility. Due to high degree of customisation, majority of the production of JEL is backed by confirmed orders.

Successful completion of IPO in October 2017: During October 2017, JEL came out with an IPO of 40,00,800 equity shares of face value of Rs.10 each for cash at a price of Rs.120 per equity share, aggregating up to Rs.48 crore. Besides, it also raised Rs.10 crore through pre-IPO placement (offer of sale).

Out of the aggregate funds of Rs.58 crore, an amount of Rs.30.87 crore was utilized to dilute the stake of its private equity investor viz. Pragati India Fund Ltd (PIFL), and the balance fresh issue of Rs.27.13 crore was to be utilized for expansion of existing manufacturing facilities at Unit III, establishing new manufacturing Unit IV at SEZ Pithampur, working capital requirements and general corporate purposes of JEL. As on September 30, 2018, IPO proceeds amounting Rs.5.24 crore for Unit III and Unit-IV are still pending its proposed utilization.

Improvement in leverage on account of IPO albeit moderation in debt coverage indicators: JEL's net worth augmented by Rs.27.13 crore on account of the IPO and resulted in improvement in its overall gearing to 0.83x as on March 31, 2018 (0.91x in FY17). JEL's overall gearing (excluding acceptance) stood at 0.78x as on September 30, 2018. However, owing to lower profitability at consolidated level during FY18, PBILDT/ Interest and total debt/ GCA moderated to 1.70x (4.39x in FY17) and 14.93x (4.19x in FY17) respectively. During H1FY19, debt coverage indicators improved owing to better profitability resulting from increase in scale of operations. For H1FY19 PBIDTA interest coverage stood at 2.95x and Total Debt to GCA (annualized) stood at 5.41x.

Good growth prospects for water and waste-water industry; albeit cyclical demand from infrastructural segment: India being an agrarian economy is heavily dependent on effective water management to sustain its economy. Also with growing population base and resultant increase in urbanization, providing access to basic sanitation, clean water as well as waste water management is an important activity for the local bodies/state governments. Accordingly, there has been an increase in budgetary allocations for different infrastructure development segments such as water, sanitation and power projects, which is expected to augur well for players such as JEL, who are well placed to provide customized products. Internationally as well, opportunities for the companies providing water management equipment's remains high as governments around the world are taking various steps to improve environment through management of water, promoting water treatment and addressing water pollution issues. However, the company remains exposed to downturns in the business cycles and resultant slowdown in the project implementation.

Moderate Liquidity position: Debt service coverage ratios of JEL for FY19-21 stood at moderate levels indicating adequate cash flow availability for maturing debt obligations. The average utilisation of its fund-based working capital facilities was moderate at 75% during the trailing 12 months ending on October 2018, as against 85% during the trailing 12 months ending on August 2017. As on December 26, 2018, JEL had free cash & bank balance (unused limit) of around Rs.1.25 crore and FD without lien of Rs.0.50 crore.

Key Rating Weaknesses

Presence in a competitive industry with susceptibility of profitability to volatile raw material prices and forex rates: JEL receives fixed price orders from its clientele, while prices of its major raw materials such as steel and castings are volatile in nature. This, along with high competition in the industry and tender-based order system for government contracts limits the bargaining power of players. Thus, JEL's profitability remains exposed to volatile raw material prices and competition. However, JEL's established position in the domestic market and its technical collaborations provides it a competitive advantage over its peers.

Furthermore, with growing share of exports in the company's total income, its profitability also remains exposed to fluctuation in foreign exchange rates. However foreign currency loan from banks and other expenses in foreign currency at consolidated level provides a natural hedge and mitigate the FOREX risk to some extent. For balance unhedged foreign currency position, the company has a well-defined policy for Risk Mitigation on foreign exchange by adopting hedging strategies using forwards foreign exchange contract, option contracts and interest rate swaps.

Analytical approach:

Consolidated financials of JEL, comprising JEL and its five subsidiaries Shivpad Engineers Private Limited, Jash USA Inc., Mahr Maschinenbau GmbH, Engineering and Manufacturing Jash Limited and Rodney Hunt Inc. as on March 31, 2018, are considered for analysis owing to strong operational and financial synergies amongst them, along with common management platform.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios - Non- Financial Sector](#)

About the Company

Indore-based Jash group was founded in 1973 by Mr Jashbhai Patel. The group is engaged in the manufacturing of varied engineering products for Water Intake Systems, Water and Waste Water Pumping Stations and Treatment Plants, Storm Water Pumping Stations, Water Transmission Lines, Power, Steel, Cement, Paper & Pulp, Petrochemicals, Chemical, Fertilizers and other process plants. Jash Engineering Ltd (JEL), the flagship company of the group, is an ISO-9001:2015, ISO 14001:2015 and BS OHSAS 18001:2007 certified company which manufactures Water control gates, Mechanized screening systems, Screening conveying and washing systems, Knife gate valves, Water hammer control valves, Energy dissipating valves, Archimedes screw pumps, Micro hydro turbines, Clarifiers, Clariflocculators, Flash Mixers, Degritters, Aerators, Thickeners, Gravity Decanters, Trickling Filters, Digester Mixers, DAF Units and solid handling valves for the water and waste water management industry.

JEL operates out of three manufacturing units located at Sanwar Road, Pithampur, and Bardari in Indore region, Madhya Pradesh, India and construction of its Unit IV manufacturing unit located near its unit III at SEZ, Pithampur, Indore is nearing its completion and is expected to start commercial operations from April 2019.

Consolidated Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	161.41	178.22
PBILDT	24.02	11.57
PAT	10.09	0.34
Overall gearing (times)	0.91	0.83
PBILDT Interest coverage (times)	4.39	1.70

A: Audited

As per provisional results of H1FY19, JEL registered a TOI of Rs.112.91 crore, PBILDT of Rs.10.15 crore and PAT of Rs.3.04 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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

Analyst Contact:

Name: Ujjwal Patel

Tel: 079-40265649

Mobile: 85111 93123

Email: ujjwal.patel@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
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Fund-based - LT-Cash Credit	-	-	-	45.00	CARE A-; Negative
Fund-based - ST-Standby Line of Credit	-	-	-	5.00	CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.56	CARE A2
Term Loan-Long Term	-	-	February 2021	23.12	CARE A-; Negative
Non-fund-based - LT/ ST-Letter of credit	-	-	-	10.00	CARE A-; Negative / CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	40.50	CARE A-; Negative / CARE A2
Non-fund-based - LT-Standby Letter of Credit	-	-	-	24.00	CARE A-; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A-; Negative	1)CARE A-; Negative (08-Jun-18)	1)CARE A-; Stable (26-Oct-17)	1)CARE BBB+ (07-Oct-16) 2)CARE BBB+ (20-Jun-16)	1)CARE BBB+ (20-Aug-15) 2)CARE BBB+ (11-Aug-15)
2.	Fund-based - ST-Standby Line of Credit	ST	5.00	CARE A2	1)CARE A2+ (08-Jun-18)	1)CARE A2+ (26-Oct-17)	1)CARE A2 (07-Oct-16) 2)CARE A2 (20-Jun-16)	1)CARE A2 (20-Aug-15) 2)CARE A2 (11-Aug-15)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.56	CARE A2	1)CARE A2+ (08-Jun-18)	1)CARE A2+ (26-Oct-17)	1)CARE A2 (07-Oct-16) 2)CARE A2 (20-Jun-16)	1)CARE A2 (20-Aug-15) 2)CARE A2 (11-Aug-15)
4.	Term Loan-Long Term	LT	23.12	CARE A-; Negative	1)CARE A-; Negative (08-Jun-18)	1)CARE A-; Stable (26-Oct-17)	1)CARE BBB+ (07-Oct-16) 2)CARE BBB+ (20-Jun-16)	1)CARE BBB+ (20-Aug-15) 2)CARE BBB+ (11-Aug-15)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	10.00	CARE A-; Negative / CARE A2	1)CARE A-; Negative / CARE A2+ (08-Jun-18)	1)CARE A-; Stable / CARE A2+ (26-Oct-17)	1)CARE BBB+ / CARE A2 (07-Oct-16) 2)CARE BBB+ / CARE A2 (20-Jun-16)	1)CARE BBB+ / CARE A2 (20-Aug-15) 2)CARE BBB+ / CARE A2 (11-Aug-15)
6.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	40.50	CARE A-; Negative / CARE A2	1)CARE A-; Negative / CARE A2+ (08-Jun-18)	1)CARE A-; Stable / CARE A2+ (26-Oct-17)	1)CARE BBB+ / CARE A2 (07-Oct-16) 2)CARE BBB+ / CARE A2 (20-Jun-16)	1)CARE BBB+ / CARE A2 (20-Aug-15) 2)CARE BBB+ / CARE A2 (11-Aug-15)
7.	Non-fund-based - LT-Standby Letter of Credit	LT	24.00	CARE A-; Negative	-	-	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com