Jash Engineering Limited

June 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	53.67	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Short-term Bank Facilities	5.56	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Long term / Short term Bank Facilities	67.50	**CARE A-; Negative / CARE A2+ (Single A Minus; Outlook: Negative / A Two Plus)**	**Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**
Total	**126.73 (Rupees One Hundred Twenty Six crore and Seventy Three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Jash Engineering Limited (JEL) continue to derive strength from the vast experience of promoters and established track record of operations in manufacturing of water/waste water management equipment. The ratings also continue to factor in JEL's comfortable leverage, increase in order book, its technical and financial collaborations with various global equipment manufacturers, diversified and reputed clientele, its foray in the highly regulated water control and waste management industry in USA through acquisition of "Rodney Hunt", which is an established and approved brand in USA and many other countries and good growth prospects in the domestic and international market on account of thrust of the government on water/waste-water treatment.

The ratings, also, take cognizance of JEL's lower than envisaged operational performance during FY18 (FY refers to the period April 1 to March 31) with regards to its scale of operations and profitability.

The ratings, continue to remain constrained on account of its moderate scale of operations, vulnerability of its income to timely off-take of products by the clients and inherent cyclicality in the infrastructure industry, high working capital intensity of its operations 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 and recent acquisition and expanding its geographical reach by catering to wider markets, improve its profitability, liquidity while maintaining its comfortable capital structure would be the key rating sensitivities. Furthermore, sale of excess land of Rodney Hunt, completion of ongoing expansion and modernization capex and timely realization of receivables shall be key rating monitorables.

Outlook: Negative

The outlook on the ratings of JEL has been revised to 'Negative' on account of lower than envisaged operational performance and substantial underachievement of profitability during FY18 due to adverse macroeconomic environment in the domestic market and losses in overseas subsidiaries and uncertainty over performance of Jash USA Inc. in the current year FY19.

The outlook may be revised to 'Stable' in case of significant and sustained improvement in its scale of operations in the domestic as well as overseas markets along with healthy profitability, resulting in improved cash accruals, liquidity and strengthening of its debt coverage indicators.

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

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters and Board of Directors: Promoters of JEL have over three decades of experience in manufacturing and marketing of engineering products in the water management industry. The Chairman and Managing Director of the company, Mr Laxminandan Amin, is a mechanical engineer who has vast experience of more than 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 more than 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 underpinned by reputed clientele and diverse geographical presence: JEL has an established track record of about four decades in the water and waste water equipment industry and offers services across the entire production chain including Design, Casting, Fabrication, Assembly & Testing. It manufacturers the most varied range of products in largest possible sizes, which it markets under its own brands which are well-recognized and acknowledged as leaders in their respective product segments in many countries around the world.

JEL's clientele comprises reputed players in infrastructure industry and is fairly diversified, with top five customers accounting for only 18% of its sales in FY17 (27% in FY16). The company has a diverse geographical presence with 30% of its income earned through exports in FY17, with major focus on countries such as Hong Kong, Singapore, France, USA, Canada, UK and Germany.

Acquisition of new brand 'Rodney Hunt' in USA along with technical and financial collaboration with multiple international manufacturers: JEL 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 September 2016 and its manufacturing facility in July 2017. Rodney Hunt is mainly engaged in manufacturing cast iron gates and wide range of equipment for water and waste water industry and has an established market in North America and many other countries in the world. The acquisition was done through JEL's wholly owned subsidiary (WOS) Jash USA Inc., incorporated in FY16.

Besides this, the company also has multiple technical and financial collaborations with global players in the water management industry, which provides it a technical edge in products manufactured and supplied both in domestic and international markets.

Growth in scale of operations, albeit significant decline in profitability: During FY17, JEL's consolidated TOI grew by 33% y-o-y in FY17 to Rs.158 crore on account of steady execution of orders on hand and growth in exports. Although, JEL's consolidated TOI grew further by 14% during FY18 to Rs.180 core, the growth was lower than envisaged in both, domestic as well as international markets.

JEL's profitability dipped significantly during FY18 owing to losses in overseas subsidiaries and lower than envisaged profitability from Indian operations. The consolidated PBILDT margin dipped from 14.88% in FY17 to 7.67% during FY18.

Increase in order book: JEL's consolidated order book increased to Rs.270.25 crore as on May 30, 2018 as against Rs.197 crore as on July 31, 2017. Order book to consolidated total operating income (TOI) of FY18 was 1.50x, indicating moderate revenue visibility. The orders are from municipal corporations and reputed companies and EPC contractors in the infrastructure industry. 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 and modernization of existing manufacturing facilities, working capital requirements and general corporate purposes of JEL.

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 of 0.91x as on March 31, 2017 to 0.70x as on March 31, 2018. The IPO also aided the liquidity of JEL as an amount of Rs.12.61 crore was utilized towards working capital requirements and general corporate purpose as on March 31, 2108. However, owing to low profitability during FY18, the debt coverage indicators moderated during FY18.

Good growth prospects for water and waste-water industry; albeit cyclical demand from infrastructural segment: Thrust on investment in water infrastructure projects by the Government is expected to result in good growth prospects for players in the water and waste water management industry. Growth in population and increased focus of government on access to basic sanitation, clean water and hygiene provisions has led to 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. However, the company remains exposed to downturns in the business cycles and resultant slowdown in the project implementation.

Key Rating Weaknesses

Working capital-intensive operations: 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 mainly as it operates out of three manufacturing units as well as due to high degree of customization involved. Furthermore, the sales of JEL is highly skewed in the last quarter of a financial year, resulting in higher receivables as on balance sheet date. Consequently, its operating cycle remained high at over 111 days in FY18 (120 days in FY17). However, post utilisation of IPO proceeds meant for working capital requirements, JEL's reliance on bank borrowings has reduced and remained moderate post October 2017.

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.

Analytical approach:

Consolidated financials of JEL, comprising JEL and its four subsidiaries 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 & waste water and bulk solids handling industries, for segments including cement, paper, fertilizers and chemicals. Jash Engineering Ltd (JEL), the flagship company of the group, is an ISO-9001:2008 company which manufactures water control and knife gate, bulk solids handling valves, fine and coarse screening equipment, Archimedean screw pumps, hydro power turbine generators and large-sized cast iron (C.I.) castings 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. Over the years, the company has entered into various technical and financial collaborations with various global equipment manufacturers in the water management industry, to enhance its product portfolio.

Consolidated Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	157.84	179.58
PBILDT	24.02	13.77
PAT	10.09	0.34
Overall gearing (times)	0.91	0.70
PBILDT Interest coverage (times)	4.39	2.02

A: Audited

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.*

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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
Fund-based - LT-Cash Credit	-	-	-	40.00	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	13.67	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	-	-	-	57.50	CARE A-; Negative / CARE A2+

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	40.00	CARE A-; Negative	-	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+ (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+ (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	13.67	CARE A-; Negative	-	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-; 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	57.50	CARE A-; Negative / CARE A2+	-	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)

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