Jash Engineering Limited

October 22, 2019

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings**[1]	**Rating Action**
Long-term Bank Facilities	82.58 (reduced from 92.12)#	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Negative (Single A Minus; Outlook: Negative)**
Long/Short-term Bank Facilities	55.31 (enhanced from 50.50)#	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Long-term rating revised from CARE A-; Negative (Single A Minus; Outlook: Negative) and Short-term rating Reaffirmed**
Short-term Bank Facilities	5.00# (reduced from 5.56)#	**CARE A2 (A Two)**	**Reaffirmed**
Total	**142.89 (Rupees One Hundred and Forty Two Crore and Eighty Nine Lakh only)**		

[1]Details of instruments/ facilities in Annexure-1

#reclassified Rs.4.25 crore long term back facility and Rs.0.56 crore short term back facility to long-term/Short term bank facility.

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Jash Engineering Limited (JEL) is on account of continued high losses in its US based subsidiary (Jash USA Inc.) leading to its moderate consolidated operating profitability (PBILDT) margin which coupled with delay in realization of sale proceeds from its excess land in USA has resulted in JEL extending more than envisaged support to its US subsidiary in the form of significantly high receivables and fund infusion during FY19 (FY refers to the period from April 01 to March 31).

The ratings continue to derive strength from its experienced promoters and established track record of JEL in manufacturing of water/waste water management equipment, various technical and financial collaborations with various global equipment manufacturers, diversified and reputed clientele, moderate order book and good growth prospects of the industry. The ratings also factor growth in its consolidated scale of operations with gradual ramp up of operations in USA post acquisition of "Rodney Hunt" and its comfortable leverage.

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 by JEL along with high inventory and receivables. JEL further remains exposed to inherent cyclicality in the infrastructure industry and susceptibility of its profitability to volatile raw material prices and foreign exchange rates.

Rating Sensitivities

Positive Factors

- Turnaround of US operation with JASH USA becoming profitable along with JEL on a consolidated basis achieving PBILDT margin of more than 17% on sustained basis
- Significant reduction in debtors which are outstanding for than six months from Jash USA along with improvement in its working capital cycle
- Reduction in debt levels resulting in overall gearing below 0.5 times and total debt to GCA below 2 times on a sustained basis

Negative Factors

- Increase in losses in its US operations and delay in monetization of excess land leading to further support requirement from Indian operations and PBILDT margin on consolidated basis reaching below 10% on a sustained basis
- Increase in debt levels with overall gearing increasing beyond 1.25 times and total debt/GCA beyond 8 times on a sustained basis.

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

Detailed description of the key rating drivers

Continued losses in Jash USA and delay in realization of sale proceeds from sale of excess land requiring support from Indian operations: Post-acquisition of Rodney Hunt (by Jash USA) in FY17, JEL started with marketing setup while manufacturing plant in USA became operational in August 2018. Jash USA has faced issues in terms of high manpower cost along with high operating cost resulting in significant losses in Jash USA Inc despite increase in scale of operations. TOI of Jash USA grew from Rs.39.57 crore (USD 5.5 million) in FY18 to Rs.74.33 crore (USD 10.5 million) in FY19 however, its net loss had increased from Rs.7.01 crore (UDS 1.01 million) in FY18 to Rs.10.54 crore (USD 1.52 million) in FY19 due to high maintenance and employee costs. Jash USA reported losses in Q1FY20 as well. This has resulted in its moderate operating profitability on consolidated basis viz. PBILDT margin stood at 11.18% in FY19 after a dip to 6.49% in FY18; however it still remained lower as compared to 14.88% in FY17.

Further, Jash USA was expected to receive proceed of land sales of USD 1.05 million by March 2019 which is still pending. In the absence of these, Jash India had extended support in the form infusion of equity and loans & advances which stood at Rs.20.83 crore and extended debtors of Rs.41.51 crore as on March 31, 2019 (increased significantly from Rs.23.21 crore). As articulated by the company management, Jash USA is envisaging a turnover of USD 13 -14 mn in FY20 with losses up to USD 0.50 mn while in FY21 the envisaged revenue is USD 16-17 mn and profit around USD 1 to 1.50 mn. Turnaround in operations of Jash USA will remain one of the key rating sensitivities.

Key Rating Strengths

Experienced promoters: The promoters of JEL have vast 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, possesses 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 track record of operation along with technical and financial collaboration with multiple international manufacturers: JEL has an established track record of more than four decades in the water and waste water equipment industry. It offers services across the entire production chain including Design, Casting, Fabrication, Assembly and Testing.

Over the years, apart from building in-house manufacturing capability, JEL had 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. During FY19, JEL had entered into technical collaboration with Umwelt-und Verfahrenstechnik AG, Germany for the manufacturing of disc filters for the Indian market.

Diversified and reputed clientele along with moderate consolidated order book: JEL’s clientele is fairly diversified and comprises of reputed players in the infrastructure industry along with various municipal authorities. JEL has a diverse geographical presence with contribution of export sales to its consolidated total operating income (TOI) increasing from 22% in FY18 (FY17: 7%) to 27% in FY19 with major focus on US market. Apart from US market, significant exports were also made to Canada, Doha, Hong Kong, Turkey, Singapore, UK and Canada.

JEL’s consolidated order book stood at Rs.259.99 crore as on October 01, 2019 (1.02x consolidated TOI for FY19) as against Rs.207.22 crore (1.16x consolidated TOI for FY18) as on November 30, 2018 indicating moderate revenue visibility. Due to high degree of customisation, majority of the production of JEL is backed by confirmed orders.

Comfortable leverage and moderate debt coverage indicators: On a consolidated level, capital structure of JEL remained comfortable with overall gearing of 0.84x as on March 31, 2019 compared to 0.83x as on March 31, 2018. However, total debt had increased from Rs.71.83 crore as on March 31, 2018 to Rs.78.68 crore as on March 31, 2019 with increase in working capital borrowings to support USA operations. Net-worth base of the company remained moderate at Rs.93.27 as on March 31, 2019. Debt coverage indicators of the company marked by total debt to gross cash accruals (TDGCA) and PBILDT interest coverage ratio remained moderate at 4.82 times and 3.62 times respectively in FY19 as compared to 14.93 times and 1.70 times respectively in FY18. Debt coverage indicators had declined significantly in FY18 on account of increase in employee cost due to acquisition of Rodney Hunt (USA) along with high freight cost (one time) incurred by the company to meet the stipulated deadlines for particular export (USA) order. However, despite some improvement in its debt coverage indicators in FY19, they remained inferior to levels achieved in FY17.

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 established players in the industry. Internationally as well, opportunities for the companies providing water management equipment 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.

Liquidity: Adequate
JEL's liquidity is adequate marked by moderate repayment obligations of around Rs.14 crore, moderate utilization of working capital limits and no major capex planned in near future. Avg. fund based working capital utilization (after including the stand-by line of credit) for trailing 12 months ended August 2019 was 82%. It has reported positive cash flow from operation of Rs.19.84 crore in FY19 as compared to negative cash flow from operation of Rs.8.20 crore in FY18. It had cash and bank balance of Rs.1.82 crore (apart from lien marked FD of Rs.9.36 crore) as on March 31, 2019. Its current ratio moderated to 1.04 times as on March 31, 2019 but improved in Q1FY20 with drawl of loan against property (LAP) of Rs.13.85 crore which was partly used for working capital requirement.

Key Rating Weaknesses
Moderate scale of operations and moderate profitability due to losses in Jash USA Inc.: During FY19, JEL's consolidated TOI grew from Rs.178.22 crore in FY18 to Rs.254.34 crore in FY19; y-o-y growth of 42.71% with sustained order execution and ramp up of USA operation. On a consolidated basis, export sales grew 82% whereas domestic sales grew 31% on y-o-y basis. JEL's standalone revenue continued to be the major contributor to the company's consolidated TOI, with around 80% share in FY19 (FY18: 87% share). However, profitability margin on a consolidated level continued to be weighed down by losses in foreign subsidiary mainly Jash USA Inc. Profit before interest, lease, depreciation and tax (PBILDT) margin on a consolidated level, though improved from 6.49% in FY18 to 11.18% in FY19 it remained at moderate level compared to FY17 level.
During Q1FY20, JEL reported consolidated TOI of Rs.58.21 crore (Q1FY19: Rs.55.31 crore) PBILDT margin of 8.60% (Q1FY19: 6.84%). However, at profit after tax (PAT) level it reported loss of Rs.0.05 crore in Q1FY20 (Q1FY19: net profit of Rs.0.34 crore in) due to increase in interest and finance cost with increase in debt levels and effect of deferred tax.

Working capital intensive nature of operations due to high receivables and inventory level: JEL's operations are working capital intensive in nature due to high level of customization and order specifications with large number of products leading to high inventory holding period of around 95 in FY19. Receivables period was also high, at around 99 days in FY19, primarily on account of skewness of sales in the last quarter of a financial year as well as due to its debtors in USA. Receivables more than six months increased from Rs.16.60 crore as on March 31, 2018 to Rs.24.77 crore as on March 31, 2019 which includes retention money. Overall, operating cycle remained elongated at 109 days in FY19 (FY18: 121 days).

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, comprising JEL and its four subsidiaries SEPL, Jash USA Inc., Mahr Maschinenbau GmbH, Austria and Engineering and Manufacturing Jash Limited as on March 31, 2019, are considered for analysis owing to strong operational and financial synergies amongst them along with common management. Details of subsidiaries consolidated are shown in **Annexure-3**.

Applicable Criteria:
[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]

Criteria for Short Term Instruments
Policy on Withdrawal of Ratings
Rating Methodology: Factoring Linkages in Ratings
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. JEL (CIN: L28910MP1973PLC001226), the flagship company of the group is ISO-9001:2015, ISO 14001:2015 and BS OHSAS 18001:2007 certified.

On standalone level, JEL operates out of four manufacturing units located in Indore, Madhya Pradesh. It has completed the construction of its 4th manufacturing plant located at SEZ, Pithampur, Indore (near its 3rd unit) and commercial operation was also started from July, 2019. JEL has four subsidiaries namely Shivpad Engineers Private Limited (SEPL), Jash USA Inc. (Rodney Hunt Inc being the wholly owned subsidiary of Jash USA Inc), Mahr Maschinenbau GmbH, Austria (Mahr Maschinenbau) and Engineering and Manufacturing Jash Limited (EMJL) as on March 31, 2019. JEL also has fabrication unit at Chennai under SEPL and one at Stafford, Texas (USA) under Rodney Hunt Inc.

(Rs. crore)

Brief Financials (Rs. Crore)- Consolidated	FY18 (A)	FY19 (A)
Total operating income	178.22	254.34
PBILDT	11.57	28.43
PAT	0.34	8.54
Overall gearing (times)	0.83	0.84
PBILDT Interest coverage (times)	1.70	3.62

A: Audited

Based on published consolidated results for Q1FY20, JEL has reported TOI of Rs.58.21 crore (Q1FY19: Rs.55.31 crore) with PAT of (-) Rs.0.05 crore (Q1FY19: 0.34 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

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	-	-	-	55.50	CARE BBB+; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	5.00	CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	May 2029	17.33	CARE BBB+; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	10.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	45.31	CARE BBB+; Stable / CARE A2
Non-fund-based - LT-Standby Letter of Credit	-	-	-	9.75	CARE BBB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	55.50	CARE BBB+; Stable	-	1)CARE A-; Negative (04-Jan-19) 2)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)
2.	Fund-based - ST-Standby Line of Credit	ST	5.00	CARE A2	-	1)CARE A2 (04-Jan-19) 2)CARE A2+ (08-Jun-18)	1)CARE A2+ (26-Oct-17)	1)CARE A2 (07-Oct-16) 2)CARE A2 (20-Jun-16)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	1)CARE A2 (04-Jan-19) 2)CARE A2+ (08-Jun-18)	1)CARE A2+ (26-Oct-17)	1)CARE A2 (07-Oct-16) 2)CARE A2 (20-Jun-16)
4.	Term Loan-Long Term	LT	17.33	CARE BBB+; Stable	-	1)CARE A-; Negative (04-Jan-19) 2)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)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	10.00	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Negative / CARE A2 (04-Jan-19) 2)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)
6.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	45.31	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Negative / CARE A2 (04-Jan-19) 2)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)
7.	Non-fund-based - LT-Standby Letter of Credit	LT	9.75	CARE BBB+; Stable	-	1)CARE A-; Negative (04-Jan-19)	-	-

Annexure-3: List of subsidiaries getting consolidated

Sr. No.	Name of the Company	% holding by JEL
1.	Jash USA Inc.*	100%
2.	Shivpad Engineers Private Limited	99.98%
3.	Mahr Maschinenbau GmBH, Austria	100%
4.	Engineering and Manufacturing Jash Limited, Hong Kong	100%

**Rodney Hunt is subsidiary of Jash USA Inc.*

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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