Jash Engineering Limited

October 26, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	53.67 (enhanced from 42.40)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+ (Triple B Plus)**
Short-term Bank Facilities	5.56	**CARE A2+ (A Two Plus)**	**Revised from CARE A2 (A Two)**
Long term / Short term Bank Facilities	67.50 (enhanced from 42.50)	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**	**Revised from CARE BBB+ / CARE A2 (Triple B Plus / A Two)**
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 revision in the ratings assigned to the bank facilities of Jash Engineering Ltd (JEL) takes into account growth in its scale of operations during FY17 (refers to the period April 1 to March 31), growth in its order book and improvement in JEL's capital structure and liquidity on account of successful completion of its initial public offer (IPO) during October 2017. The revision in the ratings also factors in JEL's 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.

The ratings continue to derive strength from the vast experience of JEL's promoters and established track record of operations in manufacturing of water/waste water management equipment, its technical and financial collaborations with various global equipment manufacturers, diversified and reputed clientele 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 continue to factor in healthy profitability of the company; albeit reduced in FY17 due to increase in raw material costs, its comfortable leverage & moderate debt coverage indicators.

The ratings, however, continue to remain constrained by 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 and maintain its comfortable capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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 will be 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 will be utilized for expansion and modernization of existing manufacturing facilities, working capital requirements and general corporate purposes of JEL.

Improvement in leverage and liquidity on account of IPO, along with moderate debt coverage indicators: JEL's networth augmented by Rs.27.13 crore on account of the IPO which shall result in an improvement in its consolidated overall gearing of 0.91x as on March 31, 2017. The IPO is also expected to aid the liquidity of JEL in the near term since an amount of approximately Rs.13 crore is earmarked for working capital requirements and general purposes.

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

Debt coverage indicators remained comfortable in FY17 with a PBILDT interest coverage of 4.39x during FY17 (4.00x in FY16) and a total debt to GCA of 4.19x (3.92x in FY16) and is expected to remain comfortable in the medium term with healthy profitability and controlled debt levels.

Acquisition of new brand 'Rodney Hunt' in USA alongwith 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 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.

Increase in order book: JEL's consolidated order book increased to Rs.197 crore as on July 31, 2017 as against Rs.163 crore as on March 31, 2016. Order book to consolidated total operating income (TOI) of FY17 was 1.25x, indicating moderate revenue visibility. The orders are from reputed companies and EPC contractors in the infrastructure industry, and from municipal corporations. Due to high degree of customisation, majority of the production of JEL is backed by confirmed orders.

Growth in scale of operations and healthy 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. JEL's standalone operations was the major contributor to the company's consolidated TOI, with a 95% share. During FY17, exports of JEL more than doubled to Rs.44 crore and contributed around 30% to its standalone income, as against a 17% in FY16.
Product portfolio of JEL is diversified with gates contributing 35% of the company's total revenue in FY17 (38% in FY16), followed by screening equipment (32% in FY17; 34% in FY16), valves (23% in FY17; 24% in FY16) and process equipment (7% in FY17; nil in FY16).
Consolidated PBILDT margin remained healthy at 14.88% in FY17, albeit dipped by 270 bps due to increase in raw material prices and change in the proportion of product profile in its revenue contribution. PAT margin, however, improved by 26 bps and remained healthy at 6.25% with largely stable interest costs and depreciation charges.
During Q1FY18, JEL (standalone) earned TOI of Rs.25.33 crore with PAT of Rs.1.07 crore. PBILDT margin remained healthy at 14.78%.

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.

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 (at around 35-40% of the total sales), resulting in higher receivables as on March 31, 2017. Consequently, its operating cycle remained high at over 120 days in FY17. Average fund-based utilization during trailing 12-months ended August 2017 remained high at 85%.

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, alongwith high competition in the industry with tender-based order for government contracts limits the bargaining power of players. Thus, JEL's profitability remains exposed to volatile raw material prices and competition, though 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, 2017, are considered for analysis owing to strong operational and financial synergies amongst them, alongwith common management platform.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
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)	FY16 (A)	FY17 (A)
Total operating income	119.12	157.84
PBILDT	21.29	24.02
PAT	7.25	10.09
Overall gearing (times)	0.82	0.91
PBILDT Interest coverage (times)	4.00	4.39

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.*

Analyst Contact:
Name: Ujjwal Patel
Tel: 079-40265649
Mobile: 85111 93123
Email: ujjwal.patel@careratings.com

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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-; Stable
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-; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	10.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	57.50	CARE A-; Stable / 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	-	1)CARE BBB+ (07-Oct-16) 2)CARE BBB+ (20-Jun-16)	1)CARE BBB+ (20-Aug-15) 2)CARE BBB+ (11-Aug-15)	1)CARE BBB+ (01-Oct-14) 2)CARE BBB+ (23-Sep-14)
2.	Fund-based - ST-Standby Line of Credit	ST	5.00	CARE A2+	-	1)CARE A2 (07-Oct-16) 2)CARE A2 (20-Jun-16)	1)CARE A2 (20-Aug-15) 2)CARE A2 (11-Aug-15)	1)CARE A2 (01-Oct-14) 2)CARE A2 (23-Sep-14)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.56	CARE A2+	-	1)CARE A2 (07-Oct-16) 2)CARE A2 (20-Jun-16)	1)CARE A2 (20-Aug-15) 2)CARE A2 (11-Aug-15)	1)CARE A2 (01-Oct-14)
4.	Term Loan-Long Term	LT	13.67	CARE A-; Stable	-	1)CARE BBB+ (07-Oct-16) 2)CARE BBB+ (20-Jun-16)	1)CARE BBB+ (20-Aug-15) 2)CARE BBB+ (11-Aug-15)	1)CARE BBB+ (01-Oct-14)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	10.00	CARE A-; Stable / CARE A2+	-	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)	1)CARE BBB+ / CARE A2 (01-Oct-14)
6.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	57.50	CARE A-; Stable / CARE A2+	-	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)	1)CARE BBB+ / CARE A2 (01-Oct-14)

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, Somaiya 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

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

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@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

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

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

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

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

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

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

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