February 05, 2024

JSK Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based Term Loan	37.00	37.00	[ICRA]A (Stable); reaffirmed
Long-term: Fund-based Cash Credit	48.00	48.00	[ICRA]A (Stable); reaffirmed
Long-term: Non-fund based	120.00	155.00	[ICRA]A (Stable); reaffirmed
Short-term: Non-fund based	420.00	601.70	[ICRA]A1; reaffirmed
Long-term/Short-term: Unallocated	216.70	0.00	-
Total	**841.70**	**841.70**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for the bank facilities of JSK Industries Private Limited (JSK) factors in its healthy order book position of Rs. 1,777.4 crore as on December 31, 2023, which coupled with favourable demand conditions in its end-user industry (power transmission) provide adequate revenue visibility over the near-to-medium term. The ratings positively consider the comfortable capital structure of JSK, marked by a low gearing as well as its adequate liquidity position. The ratings also favourably factor in its reputed clientele, comprising large and established entities in the power transmission segment, and extensive experience of the promoters in the aluminium conductor and wire rod manufacturing business. ICRA also notes that JSK's letter of credit (LC)-backed sales to non-government entities mitigate its exposure to counterparty credit risks, and result in faster realisation of receivables.

The ratings, however, remain constrained by JSK's exposure to pricing pressure due to increased competition in the industry. While most of the contracts in the current order book have price escalation clauses, ICRA notes that the operating profit margins (OPM) can be adversely impacted due to the competitive bidding. The ratings are also tempered by JSK's exposure to foreign exchange (forex) risks to the extent of any mismatch in its exports and imports. Nevertheless, use of forward contracts mitigates the risk to an extent. JSK's revenues and profitability also remain exposed to delays in the project execution by its customers due to reasons beyond the company's control, such as delays in receiving the right of way, among others. However, the Central Government's policy of allocating projects only after receipt of major clearances provides comfort to some extent.

The Stable outlook on JSK's long-term rating reflects ICRA's opinion that the company will continue to benefit from its established position as well as healthy order book position with favourable demand conditions in its end-user industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and healthy market position – JSK is one of the leading manufacturers of aluminium conductors and wire rods in India. The company is promoted by Mr. Anish Shah and Mr. Kalpesh Shah, who have a combined experience of more than two decades in the industry.

Healthy order book position provides adequate revenue visibility in the near term – The company's current order book position is healthy with orders worth Rs.1,777.4 crore as on December 31, 2023, which is 0.9 times of its FY2023 revenues. The execution timeline for the order book is primarily 6-9 months. This coupled with favourable demand conditions in its end-user industry (power transmission) provide adequate revenue visibility over the near-to-medium term. Additionally, price escalation clause in the sales contract enables JSK to pass on any adverse movement in raw material prices to its customers, mitigating the price fluctuation risk to a large extent.

Comfortable capital structure; adequate liquidity position – JSK's reliance on fund-based limits has remained minimal, with the company primarily utilising non-fund facilities (letters of credit and bank guarantee) to support its operations. JSK's capital structure has remained comfortable with total outside liabilities vis-à-vis the tangible net worth of 1.1 times as on March 31, 2023. The coverage indicators also remain adequately supported by low working capital intensity of operations with the interest cover improving to 4.8 times in FY2023 (2.1 times in FY2022), led by higher operating profit in FY2023. Going forward, JSK's financial risk profile is expected to remain comfortable, supported by an improved order book position and lower dependence on debt. JSK's liquidity position remains adequate, characterised by unencumbered cash/bank balances and liquid investments and unutilised bank limits.

Low exposure to counterparty credit risks; reputed customer profile – JSK's sales to non-government entities are backed by LCs, which largely mitigate the counterparty credit risks. In addition, JSK generally discounts these LCs, which result in faster conversion of receivables. ICRA notes that JSK has reduced its exposure to Government entities to avoid the risk of delayed payments. JSK's clientele includes reputed companies like KEC International Limited (rated [ICRA]AA-(Stable)/ A1+), Larsen & Toubro Limited (rated [ICRA] A1+), and Adani Group, among others, which have strong credit profile. JSK has been generating repeat orders over the years. Additionally, in current fiscal, the company has entered into 10-year agreement with CTC Global to supply ACCC conductors.

Credit challenges

Profitability constrained by intense competition and limited value addition – Increased competition in the industry and limited value addition in the business have kept JSK's OPM under check in the last few years. Also, the company has been offering attractive pricing to customers, in lieu of LC-backed sales. ICRA notes that JSK witnessed improvement in profitability in FY2023 led by higher order execution during the period.

Exposure to forex risks – JSK imports a part of its raw material requirements and has export presence as well, which provides it with a partial natural hedge. The company remains exposed to forex risks to the extent of any mismatch between its imports and exports, though ICRA notes that the company enters into forward contracts to hedge the same.

Exposure to delays in project execution by customers – The company's revenue growth remains exposed to delays in execution timelines by the project owners due to reasons beyond the company's control, such as delays in receiving the right of way, among others. However, ICRA takes comfort from the Central Government's policy of allocating projects only after providing major clearances.

Capacity constrained due to delay in on-going expansion project – The capacity utilisation for the company has remained optimum with utilisation level of more than 80% for aluminium conductors. The company planned to increase the capacity for manufacturing of aluminium conductors and the enhanced capacity was expected to commence operations from May 2023. However, the project could not be completed within the stipulated timeline as there were delays in supply of machinery from the vendor. Till January 15, 2024, the company has incurred Rs.14.0 crore towards capacity expansion against the total envisaged project cost of Rs. 34.6 crore. At present, there is no clarity as to when the same will be completed as it depends on the supply of machinery from the vendor. Thus, delay in implementation of expansion project, limits the revenue growth for the company until such time the project gets completed.

Liquidity position: Adequate

JSK's liquidity remains **adequate,** with free cash and bank balances of Rs. 98.9 crore as on September 30, 2023, which would be largely used to service the LC maturities. The undrawn fund-based limits of Rs. 48.0 crore with commensurate drawing power also provide cushion to its liquidity. In FY2023, the company has availed term loan of Rs. 37.0 crore (which includes term loan of Rs. 9.6 crore against reimbursement of capital expenditure (capex) incurred earlier). The said loan is availed to part-fund the capex of Rs.46.61 crore, which includes Rs.34.60 crore of new capex towards increase in the existing manufacturing capacity, while the remaining Rs.12.01 crore relates to capex incurred in the past years. The annual debt repayments for the term loan are Rs. 7.4 crore per annum over the next three years (FY2025-FY2027). Besides, the company has Rs. 75.8 crore and Rs. 112.5 crore of LC repayments falling due in February 2024 and March 2024, respectively, which are expected to be comfortably serviced by internal cash generation.

Rating sensitivities

Positive factors – The ratings may be upgraded, if the company registers a significant growth in its profitability, while efficiently managing its working capital cycle, on a sustained basis. A specific credit metric for ratings upgrade includes an interest coverage above 6.0 times on a sustained basis.

Negative factors – Pressure on JSK's ratings could arise if there is any significant decline in revenues and/or profitability, which adversely impacts its coverage metrics/financial risk profile. An elongation in the working capital cycle that adversely impacts the company's liquidity position could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of JSK.

About the company

Established in 2005 by Mr. Kalpesh Shah, a technocrat, and Mr. Anish Shah, a Chartered Accountant, JSK manufactures overhead aluminium conductors and wire rods. The end customers of aluminium conductors include Power Grid Corporation of India Limited (PGCIL), various state electricity boards, private sector distribution companies and providers of turnkey solutions for electricity transmission. The wire rods are used for captive consumption as well as for external sales to other cable and conductor manufacturers. Besides, the company trades in aluminium ingots. JSK has a manufacturing facility in Silvassa (Dadra & Nagar Haveli) for conductors and wire rods. The plant is certified by ISO and its products have been approved by the Environmental Management System and the Occupational Health and Safety Management System.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	1,208.4	1,981.7
PAT	5.3	50.1
OPBDIT/OI	1.6%	3.8%
PAT/OI	0.4%	2.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	0.0	0.2
Interest coverage (times)	2.1	4.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Feb 05, 2024	Jan-25-2023	Oct-22-2021	06-Nov-2020	18-May-2020
1	**Fund-based Term Loan**	Long-term	37.00	37.00*	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
2	**Fund-based Cash Credit**	Long-term	48.00	--	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**
3	**Non-fund Based**	Long-term	155.00	--	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**
4	**Non-fund Based**	Short-term	601.70	--	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
5	**Unallocated**	Long-Term/Short-term	-	--	-	**[ICRA]A (Stable) /[ICRA]A1**	**[ICRA]A (Stable) /[ICRA]A1**	**[ICRA]A (Negative) /[ICRA]A1**	**[ICRA]A (Negative) /[ICRA]A1**

*Sanctioned Amount

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based Term Loan	Simple
Long-term: Fund-based Cash Credit	Simple
Long-term: Non-fund based	Very Simple
Short-term: Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term: Fund-based Term Loan	January-2023	NA	March-2028	37.00	[ICRA]A (Stable)
NA	Long-term: Fund-based Cash Credit	NA	NA	NA	48.0	[ICRA]A (Stable)
NA	Long-term: Non-fund based	NA	NA	NA	155.00	[ICRA]A (Stable)
NA	Short-term: Non-fund based	NA	NA	NA	601.70	[ICRA]A1

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Taanisha Sharma
+91 22 6169 3344
taanisha.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches