

November 06, 2020

## JSK Industries Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument <sup>^</sup>	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Term Loan	9.80	-	-
Long Term - Fund Based Cash Credit	71.00	62.00	[ICRA]A(Negative); Reaffirmed
Long Term – Non-Fund Based	264.00	200.00	[ICRA]A(Negative); Reaffirmed
Short Term – Non-Fund Based	390.00	392.00	[ICRA]A1; Reaffirmed
Long Term / Short Term – Unallocated	106.90	187.70	[ICRA]A(Negative)/A1; Reaffirmed
<b>Total</b>	<b>841.70</b>	<b>841.70</b>	

<sup>^</sup>Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation considers the comfortable financial risk profile of JSK Industries Private Limited (JSK), marked by a low gearing, adequate liquidity and comfortable coverage indicators. The rating favourably factors in JSK's 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. The ratings also take into account the limited exposure of JSK to fluctuations in aluminium prices due to the presence of a price escalation clause in the sales contract with its customers, notwithstanding the fact that the price escalation clause does not cover the premium charged by the suppliers. ICRA also notes that JSK's letter of credit (LC) backed sales to non-government entities not only mitigate its exposure to counterparty credit risks but also result in faster realisation of receivables.

The ratings, however, remain constrained by JSK's subdued operating performance in FY2020, which is likely to continue in FY2021 owing to modest demand conditions amid the pandemic outbreak. JSK's operating profitability has been declining due to intense competition in the industry and consequent pricing pressure. The ratings are also tempered by JSK's exposure to forex risks to the extent of any mismatch between its imports and exports. The ratings also consider any 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 etc. However, the Government's policy on allocating projects only after receipt of major clearances provides comfort to some extent.

The Negative outlook on [ICRA]A rating reflects ICRA's opinion that the business performance of JSK is likely to remain under pressure in FY2021 due to adverse impact of the pandemic on the order flow in the industry.

### Key rating drivers and their description

#### Credit strengths

**Comfortable capital structure and coverage indicators** – JSK's financial risk profile is marked by a low gearing of 0.04 times as on March 31, 2020 compared to 0.1 times as on March 31, 2019. This is mainly on account of reliance on non-fund based facilities including letters of credit and bank guarantee. The fund-based working capital limits remain largely

unutilised. The total outside liabilities to total net worth ratio (TOL/TNW) improved consistently over the years and stood at 1.1 times as on March 31, 2020 compared to 1.3 times as on March 31, 2019, while the total debt to operating profit ratio remained comfortable at 0.3 times in FY2020 compared to 0.6 times in FY2019. Going forward, despite the pressure on business performance in FY2021, JSK's financial risk profile is expected to remain comfortable, supported by low debt levels and no repayment obligations.

**Healthy liquidity profile** – JSK's liquidity profile is characterised by a mix of unencumbered cash and bank balance and liquid investments of ~Rs. 50 crore and unutilised bank limits of about Rs. 40 crore as on September 30, 2020. With no major capex plans and debt repayment obligations, JSK's liquidity profile is expected to remain comfortable. However, any elongation of receivables could impact the company's liquidity and hence remains a key rating sensitivity.

**Limited exposure to raw material price risk** – JSK's business is highly raw material intensive, with raw material cost accounting for 80-90% of total sales of conductor and wire rods. The company's sourcing involves a mix of domestic and imported raw material procurement based on price and availability. The key raw material is aluminium, prices of which have exhibited significant volatility in the past. However, presence of a price escalation clause in its sales contract enables JSK to pass on any adverse movement in raw material prices, thereby mitigating the price fluctuation risk to a large extent. Nevertheless, ICRA notes that the price escalation clause does not cover the premium charged by its suppliers.

**Low exposure to counterparty credit risks** – The major portion of JSK's non-government sales (which are about 40-50% of JSK's total sales in FY2020) are backed by LCs, which partly mitigates counterparty credit risks. In addition, the LC discounting facility results in faster conversion of receivables. However, any increase in JSK's sales to Government entities with extended credit terms and no flexibility of LC discounting could lead to an elongation of receivables to that extent. Receivables outstanding for more than 180 days remains high at an absolute level at Rs. 18.3 crore and timely recovery of the same would be critical. ICRA notes that majority of these receivables are due from state government entities which largely mitigates the counterparty credit risks.

**Reputed customer profile** – JSK's clientele includes reputed companies like KEC International Limited ([ICRA]AA-(Stable)/A1+), Power Grid Corporation of India Limited ([ICRA]AAA(Stable)/A1+), Larsen & Toubro Limited ([ICRA]AAA(Stable)/A1+), Adani Group etc., which have been generating repeat orders over the years, signifying low counterparty credit risk and adequate revenue visibility, going forward.

**Extensive experience of the promoters and healthy market position** – JSK is one of the leading manufacturers of aluminium conductors and wire rods in India with a total installed capacity of 1,12,585 metric tonnes per annum (MTPA). The company is promoted by Mr. Anish Shah and Mr. Kalpesh Shah, who have a combined experience of more than 20 years in the industry.

## Credit challenges

**Weaker-than-expected performance in FY2020 and impact of the pandemic on business in FY2021** – The company's operating performance remained weak in FY2020 with revenues falling by 23% to Rs. 1,146.9 crore in FY2020 from Rs. 1,486.8 crore in FY2019. The decline in revenues in FY2020 was due to lower addition of transmission lines in FY2020, intense competition in the market where the company did not bid for low-margin tenders, delay in execution of projects from customers' end and conservative approach of the company, where it did not enter into any non-LC backed sales with private sector entities. Consequently, the operating margins declined to 3.6% in FY2020 due to intensely competitive bidding, increased share of aluminium trading revenues and higher fixed costs. In the current year, the

pandemic has impacted the pace of order inflows and issuances of tenders in the industry, which in turn impacted the order book position of the company. The order book position remained moderate at ~Rs. 653 crore as on September 01, 2020, which is expected to be executed by March 2021. However, as witnessed in the past, any delay in execution of projects at the customers' end could restrict the revenue growth for JSK and hence, the operating performance is likely to remain under check in FY2021.

**Profitability constrained by intense competition and limited value addition** – High competition in the industry and limited value addition in the business has kept JSK's operating margins under check and the same stood at 3.6% in FY2020 compared to 5.7% in FY2016. Besides, an increase in the share of low-margin aluminium trading revenues in the last three fiscals also kept JSK's operating profitability under check.

**Exposure to forex risks** – JSK imports a part of its raw material requirements and has exports presence as well, which provides it with a partial natural hedge. However, the company remains exposed to forex risks to the extent of any mismatch between its imports and exports.

**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 issues such as delays in receiving right of way etc. However, ICRA notes that the Government's policy of allocating projects only after major clearances provides some comfort.

### Liquidity position: Adequate

JSK's liquidity remains adequate with free cash and liquid investments of ~Rs. 50 crore as on September 30, 2020. Also, undrawn fund-based limits of Rs. 40 crore as on September 30, 2020 provide additional cushion to its liquidity. In the absence of any major capex plan in the near-to-medium term and with no debt repayment obligations, JSK's liquidity is expected to remain adequate during the said period.

### Rating sensitivities

**Positive triggers** – An upgrade in the ratings looks unlikely in the near term given the Negative outlook. However, the outlook may be revised to Stable if the return on capital employed (RoCE) remains above 20% on a sustained basis or if there is a substantial growth in revenues and/or profitability and efficient working capital management, leading to an improvement in its financial risk profile.

**Negative triggers** – Pressure on the ratings could arise in case the interest coverage ratio remains below 3.0 times on a sustained basis or if there is a prolonged lull in demand conditions, resulting in lower-than-expected cash accruals or if an elongated working capital cycle impacts the company's liquidity.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Primary Non-ferrous Metals Manufacturers</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial statements of JSK

## About the company

JSK Industries Private Limited was established in 2005. Promoted by Mr. Kalpesh Shah, a technocrat, and Mr. Anish Shah, a Chartered Accountant, JSK manufactures overhead aluminum conductors and wire rods. The end customers for aluminum conductors include 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.

JSK has a manufacturing facility in Silvassa (Dadra & Nagar Haveli) with an installed capacity of 1,12,585 MTPA 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. In 2018, JSK obtained land in Aluminium Park, Odisha to set up its second manufacturing facility. However, the same is yet to start operations.

As per the provisional results for FY2020, JSK recorded a net profit of Rs. 20.6 crore on an operating income of Rs. 1,146.9 crore. JSK recorded a net profit of Rs. 22.1 crore on an operating income of Rs. 1,486.8 crore in FY2019.

## Key financial indicators

Standalone financials	FY2019(A)	FY2020(P)
Operating Income (Rs. crore)	1486.8	1146.9
PAT (Rs. crore)	22.1	20.6
OPBDIT/OI (%)	3.7%	3.6%
PAT/OI (%)	1.5%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.1
Total Debt/OPBDIT (times)	0.6	0.3
Interest Coverage (times)	3.8	2.7

Note: A: Audited Financials; P: Provisional financials; OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT – Profit after Tax; Source: JSK

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Type	Current Rating (FY2021)				Rating History for the Past 3 Years		
			Amount Rated	Amount Outstanding	Rating		FY2020	FY2019	FY2018
					Nov-06-2020	May-18-2020	July-05-2019	July-06-2018	May-17-2017
1	Fund Based CC	Long Term	62.00	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-Fund Based	Long Term	200.00	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-Fund Based	Short Term	392.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long / Short Term	187.70	-	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Fund Based - Cash Credit	-	8.75%	-	62.00	[ICRA]A(Negative)
NA	Long Term Non-Fund Based	-	-	-	200.00	[ICRA]A(Negative)
NA	Short Term Non-Fund Based	-	-	-	392.00	[ICRA]A1
NA	Long Term/Short Term Unallocated	-	-	-	187.70	[ICRA]A(Negative)/A1

Source: JSK

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Priyesh Ruparelia**

+91 22 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Rishabh Mundada**

+91 22 6169 3379

[rishabh.mundada@icraindia.com](mailto:rishabh.mundada@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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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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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

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