

March 23, 2021

## JSB Aluminium Private Limited: [ICRA]BB(Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	30.0	[ICRA]BB(Stable); assigned
Term Loan	4.0	[ICRA] BB(Stable); assigned
<b>Total</b>	<b>34.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating factors in JSB Aluminium Private Limited's (JSB's) long track record in the non-ferrous metals segment and its promoters' experience of more than two decades in the industry. The assigned ratings further factor in JSB's established relationship with reputed brands such as Maruti Suzuki Limited (MSL) and Rico Auto Industries Limited (RICO), characterised by a consistent stream of repeat order inflows. The rating further draws strength from the company's comfortable working capital cycle, characterised by a quick receivable cycle and thin inventory levels, which further mitigates the raw material prices fluctuation risk. ICRA also notes JSB's recent capex to increase the overall capacity, which might result in incremental scale benefits going forward.

However, the ratings are constrained by the moderate and fluctuating revenues in the past which coupled with thin operating margins have resulted in weak cash accruals as well as modest debt coverage indicators. The ratings are further constrained by the company's client-concentration risk as ~90% of the revenues are generated from the top 10 clients. This apart, the profitability of JSB remains vulnerable to adverse raw material price fluctuations, albeit mitigated to some extent by it maintaining thin inventory levels. The rating also factors in the risk pertaining to foreign currency fluctuations in the absence of any hedging mechanism in place. The ratings are also subdued on account of high utilisation of working capital limits resulting in stretched liquidity position.

The Stable outlook in [ICRA]BB rating reflects JSB's relationship with reputed clients and the repeat orders being received. Further, ICRA expects the profitability and scale to strengthen, going forward, post stabilisation of the ongoing capex.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters with long track record in non-ferrous industry** – The company is promoted by the Aggarwal family with experience of more than two decades in the non-ferrous industry. However, JSB was formed in 2006 and has 14 years of track record in manufacturing aluminium ingots.

**Reputed client base** – The company has lengthy and established relations with a reputed set of suppliers such as Maruti Suzuki Limited (MSL) and RICO Auto Industries Limited (RICO), etc. It consistently receives repeat orders from MSL and RICO, which contribute the most revenues to the total sales of the company.

**Comfortable working capital cycle amid increasing capacity** – JSB's comfortable working capital cycle is characterised by low working capital intensity of 11% in FY2020, aided by a quick receivable cycle of 35 days and thin inventory levels of 12 days. It is currently undertaking capex to increase its annual capacity to 3,200 MT from 2,400 MT and would manage incremental scale with only Rs. 4 crore of additional working capital funds owing to a small working capital cycle.

## Credit challenges

**Decline in revenues in FY2020 with further expected decline in CFY2021** – There has been a decline in the company’s revenues in FY2020 by ~27% to Rs. 221 crore from Rs. 202 crore in FY2019. With the initial months lost to lockdown imposed due to Covid-19 pandemic, the company is expected to post marginal losses in FY2021 as well.

**High client-concentration risk** – The sales to the top 10 clients contributed to ~89% of the total revenue in FY2020, which increased from 83% in FY2019. The client-concentration risk is further intensified with the top two clients—MSL and RICO—contributing ~62% to the overall sales in FY2020. Nonetheless, the repeat orders generated from MSL and RICO mitigate the risk to some extent.

**Vulnerability of profits to adverse fluctuations in raw material prices; risk of exchange rate fluctuations in absence of hedging mechanism** – The profits of JSB remain vulnerable to adverse raw material price fluctuations as the raw material prices are directly linked to aluminium prices on the London Metal Exchange (LME). Further, in the absence of hedging mechanism, even the foreign currency fluctuations become critical and have the potential to adversely impact the profitability of the company. Nonetheless, JSB maintains thin inventory levels to mitigate the raw material price risk to a certain extent.

## Liquidity position: Stretched

On account of the high working capital utilisation of ~96% out of the total available drawing power, the liquidity is stretched. The company has total fund-based working capital of Rs. 26.5 crore with average utilisation of ~Rs. 26 crore in the last three months. The liquidity is further stretched by the low cash balances available with the company.

## Rating sensitivities

**Positive factors** – The rating maybe upgraded in case of sustained improvement in the scale of the company while maintaining operating margins. Sustained improvement in interest coverage above 2.2 times will also be a rating trigger.

**Negative factors** – The rating maybe downgraded in case of sustained decline in the scale and profitability of the company affecting the debt coverage metrics. Higher-than-anticipated capex resulting in stretched working capital intensity and adversely impacting the liquidity might also trigger a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Non-ferrous metals</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

JSB Aluminum Private Limited (JAPL) was initially incorporated as M/S Shree Balaji Aluminum Casting in Faridabad in February 2000 by Mr. Radhey Shyam Aggarwal and Mr. Ashok Kumar Aggarwal. Prior to that, the two brothers were actively involved in trading of ferrous and non-ferrous scrap. During the 2000s, M/S Shree Balaji Aluminum Casting was renamed M/S Shree Balaji Alloy and started its operation from Kathua in Jammu & Kashmir.

Finally, in 2006, the entity started producing aluminium alloy ingots under the brand name of JSB Aluminum Private Limited and later shifted the manufacturing unit to Alwar, Rajasthan. The manufacturing facility is spread over an area of roughly 6,000 square metres, which has an office, a testing laboratory, warehouse facility and the factory. The factory has three furnaces with capacity of two 7 metric tonnes (MT) and one of 9 MT. The installed capacity is 2,000 MT per month or 24,000 MT per

annum. The average temperature of the furnaces to melt the metals range from 650 C to 850 C. Currently, the company is undertaking capex to add another furnace with 8,000-MT capacity, taking the total annual capacity to 32,000 MT.

### Key financial indicators (audited) – Standalone

Standalone	FY2019	FY2020
Operating Income (Rs. crore)	302.7	221.3
PAT (Rs. crore)	1.1	1.2
OPBDIT/OI (%)	1.9%	2.4%
PAT/OI (%)	0.4%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	3.9
Total Debt/OPBDIT (times)	4.3	4.2
Interest Coverage (times)	1.5	1.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 29, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
									March 23, 2021
1	Cash Credit	Long-term	30.0	30.0	[ICRA]BB (Stable)	-	-	-	
2	Term loan	Long-term	4.0	4.0	[ICRA]BB (Stable)	-	-	-	

### 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	Cash Credit	NA	NA	NA	30.0	[ICRA]BB(Stable)
NA	Term loan	08/03/2021	NA	31/03/26	4.0	[ICRA]BB(Stable)

Source: JSB

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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