January 05, 2023

J S Auto Cast Foundry India Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term, Fund-based/ Non-fund Based Limits	75.00	[ICRA]A+(Stable)/[ICRA]A1; assigned
Total	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned factor in the strong operational, financial and technical support enjoyed by J S Auto Cast Foundry India Private Limited (JS Auto or the company) as part of the Kalyani Group (the flagship company being Bharat Forge Limited, or BFL; rated [ICRA]AA+/Stable/[ICRA]A1+). Through its subsidiary, BF Industrial Solutions Limited, BFL acquired JS Auto in July 2022, with the acquisition expected to result in synergies for JS Auto in terms of access to new clientele, research and development (R&D) capabilities, operational and technological support, as well as financial support and flexibility, including access to low-cost debt.

Further, the ratings take into consideration JS Auto's presence in the niche renewable energy (wind) castings segment, resulting in limited competition and, hence, comfortable profitability metrics. It has, over the years, established its client base, with customers from sectors such as renewable energy, automotive, agriculture, infrastructure, etc, and a demonstrated track record spanning over almost two decades. JS Auto's presence in overseas markets with healthy revenue contribution from exports offers sufficient geographic diversification, making its operations relatively immune to demand slowdown in a particular territory.

The rating strengths are partially offset by concentration risks from its dependence on the renewable energy sector for 73% of its revenues in FY2022, which exposes its business to the cyclicality associated with the sector. Further, the business operations of JS Auto remain vulnerable to customer concentration risk, with the top five customers contributing over 70% of its revenue in FY2022; although onboarding of new clients post acquisition by BFL should help mitigate this, going forward. The ratings also factor in the current moderate scale of operations, with revenues of Rs. 410 crore in FY2022; although business expansion avenues post the acquisition by BFL, entry into medium castings, and acquisition of the manufacturing unit of Indo Shell Mould Limited (ISML) in January 2023 are together expected to improve growth prospects. ICRA also notes JS Auto's moderate capital structure and the modest net worth base, as reflected by gearing of 1.4 times as on March 31, 2022; however, with no major debt-funded capital expenditure lined up over the medium term, the capital structure should gradually improve.

The Stable outlook on the long-term rating reflects ICRA's expectation that JS Auto would continue to demonstrate a stable operating performance and financial risk profile with revenues to gradually scale up, and profitability and return indicators to improve gradually as benefits from the ownership change are realised.

Key rating drivers and their description

Credit strengths

Strong parentage expected to provide operational, technological and financial support – Following the acquisition by BFL, as part of the Kalyani Group, JS Auto has been realising benefits from the strong parentage of BFL, with operational, technological and financial synergies from the said acquisition. Such synergies include access to low-cost funding, financial support from BFL (inter-corporate deposits and equity infusion), access to new clients, procurement of raw material at competitive rates, access to BFL's R&D infrastructure, faster onboarding of new clients, etc.

Limited competition owing to its presence in the niche segment of renewable energy castings – JS Auto mainly operates in the niche renewable energy (wind) castings segment, wherein product criticality is of paramount importance and, hence, results in high entry barriers. Aided by high degree of value addition and limited competition in the wind castings segment, JS Auto enjoys comfortable margins, as seen historically.

Well-established operational track record in casting operations – Having been operational in the wind casting segment since 2012, JS Auto has demonstrated an adequate track record, as well as developed well-established relationships with entities in this space. This has helped the company in scaling up its operations through repeat orders from existing customers and onboarding new ones.

Geographically diversified revenue profile across multiple overseas markets – With exports historically contributing 40-60% to overall revenues (44% in FY2022), JS Auto demonstrates a geographically diversified revenue profile across multiple overseas markets such as USA, Europe, China, etc. Presence in multiple territories safeguards its operations against slowdown risks in any particular territory, to an extent.

Credit challenges

Modest scale of operations due to presence in niche segment – While presence in the niche wind castings space offers JS Auto with limited competition and comfortable margins, it also results in a modest scale of operations, given the limited number of large-scale clients in this market. However, with the company planning to venture into manufacturing medium castings, and its scope of expanding with BFL's existing clientele, along with the inorganic growth from the manufacturing unit acquired recently, the scale of operations should demonstrate healthy growth momentum over the medium term.

Concentration risks arising from dependence on renewable energy sector – With sizeable exposure towards the renewable energy sector, JS Auto's operations remain vulnerable to sectoral concentration risks, wherein any significant slowdown in the sector could impact the business operations of the company. Such an impact has been visible in the current fiscal wherein sluggish demand in the wind energy sector, coupled with commodity inflation, has resulted in margin contraction. However, demand recovery is anticipated over the near term, which should aid in earnings recovery.

Customer concentration risk with top five clients contributing more than 70% to revenues – JS Auto's business operations remain vulnerable to customer concentration risks, with the company deriving more than 70% of its revenues from its top five customers in FY2022. Any reduction or deferment in order placements from these key customers could, therefore, impact the growth prospects of the company. However, well-established relationships with key customers over the years resulting in repeat orders and, thus, sufficient revenue visibility provide some comfort against the said risk.

Moderate capital structure with limited net worth base – JS Auto's capital structure remains moderately leveraged, with a gearing of 1.4 times as on March 31, 2022. While the net worth base of the company currently remains limited, the proposed equity infusion by BFL would result in improvement in the net worth position. Coupled with anticipated, continued healthy accruals from operations, this should result in a gradual improvement in the capital structure, going forward.

Liquidity position: Adequate

JS Auto's liquidity profile is adequate, with cash flows of Rs. 20-30 crore generated annually. It is further supported by moderate cash and liquid investments balance of Rs. 2.4 crore as on March 31, 2022, and sufficient buffer in the form of undrawn working capital limits, which stood at Rs. 42 crore as on October 31, 2022. Against these, the company has moderate debt repayments of ~Rs. 15-20 crore per annum over the near to medium term, and capex requirements of ~Rs. 20 crore in the current fiscal (excluding the acquisition of the foundry unit of ISML, which would be entirely funded through equity infusion by BFL). BFL is expected to further support the entity through ICDs and equity infusion, as and when required.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to considerably scale up its operations on a sustained basis, coupled with a sustained improvement in its profitability indicators. Improvement in the credit profile of the parent entity would also be considered favourably.

Negative factors – Any significant deterioration in the revenue profile and/or profitability metrics adversely impacting the liquidity position or capital structure may warrant a rating downgrade. Any substantial debt-funded capital expenditure with no commensurate returns leading to adverse impact on the liquidity position and credit metrics, such that interest cover is below 4.0 times on a sustained basis, may also lead to a rating downgrade. Deterioration in the credit profile of the parent and/or weakening in linkages with the parent may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	The ratings assigned to JS Auto factors in the likelihood of its parent entity, Bharat Forge Limited, extending business and technological support. The ratings assigned also factor in the high likelihood of BFL extending financial support to JS Auto out of the need to protect its reputation from the consequences of a group entity's distress. BFL has already provided financial support to JS Auto in the form of ICDs in the current fiscal, highlighting the strategic importance of JS Auto to BFL and the Group.
Consolidation/Standalone	The ratings are based on the standalone financial statements of JS Auto.

About the company

Set up in 2004 by Mr. S Jeevanantham as a foundry unit, over the years JS Auto has grown into a manufacturer of critical castings for various sectors such as renewable energy (wind), agriculture, off-highway, automotive, catering to entities like Vestas Wind Systems A/S, Daimler Group, ZF Group and Poclain Group, among others. Pedestal blocks, bearing covers, brake discs, claw beam assemblies, etc, are some of the key products offered by JS Auto. The company currently operates through two plants in Tamil Nadu —(i.) Perundurai, where most of its foundry operations take place, and (ii.) Kuppepalayam, where machining and dispatching operations take place. The Kuppepalayam facility also offers post-production services such as painting, sub-assembling and packing/dispatching. The company was acquired by BFL in July 2022, as part of the latter's diversification initiative, and to strengthen its presence in the non-automotive casting space. Accordingly, BF Industrial Solutions Limited (a wholly owned subsidiary of BFL) holds 100% stake in the entity at present. In January 2023, the company has also entered into a Business Transfer Agreement (BTA) to acquire the manufacturing unit of Indo Shell Mould Limited in Tamil Nadu, which would add incremental casting capacity and operate as the third manufacturing unit of JS Auto.

Key financial indicators

JS Auto	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	258.7	410.0
PAT (Rs. crore)	9.7	-2.2
OPBDIT/OI (%)	15.2%	13.8%
PAT/OI (%)	3.8%	-0.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	3.1
Total Debt/OPBDIT (times)	3.2	1.8
Interest Coverage (times)	2.2	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: JS Auto, ICRA Research

Status of non-cooperation with previous CRA:

1. Infomerics Ratings: IVR BB+/IVR A4+ ISSUER NOT COOPERATING, revised from IVR BBB-/IVR A3 and migrated to 'Issuer Not Cooperating' category; press release dated August 30, 2022.
2. Acuite Ratings: ACUITE B+/ACUITE A4 | Downgraded | Issuer Not-Cooperating; press release dated May 24, 2022.
3. CRISIL Ratings: CRISIL B/Stable/CRISIL A4 ISSUER NOT COOPERATING, revised from CRISIL BB+/Stable/CRISIL A4+ ISSUER NOT COOPERATING; press release dated January 27, 2022.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					January 5, 2023	-	-	-
1	Fund based / Non fund based Working Capital Facilities	Long- term / Short- term	75.00	24.70	[ICRA]A+(Stable)/ [ICRA]A1	-	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term / Short term, Fund based / Non fund based limits	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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	75.00	[ICRA]A+(Stable)/ [ICRA]A1

Source: *Company*

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

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

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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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