February 09, 2024

JSG Innotech Private Limited: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	85.00	85.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	**85.00**	**85.00**	

Instrument details are provided in Annexure-I

Rationale

The rating upgrade for JSG Innotech Private Limited (JSG) factors in the strengthening of its financial risk profile and ICRA's expectations of sustenance of the same over the near to medium term. JSG's revenues grew by 84% YoY in FY2023 to Rs. 542.3 crore on the back of healthy offtake from key customers, additions to customer and product bases and transfer of sales from a Group company. Sustaining the momentum, it achieved revenue of Rs. 448 crore in 9M FY2024 and is expected to report healthy growth over the near term. Moreover, its operating margins have improved in the current fiscal, supported by increasing economies of scale and contribution from exports along with cost rationalisation initiatives. These factors have resulted in higher internal accrual generation, which, coupled with moderate debt levels, led to strengthening of the company's capital structure and debt protection metrics. Additionally, the rating continues to draw comfort from JSG's established business position and its promoters' extensive experience of more than three decades in the automotive components and accessories industry. Leveraging on the same, JSG has developed long-standing relations with its key customers, which include reputed automotive original equipment manufacturers (OEMs).

The rating, however, remains constrained by the highly competitive nature of the industry and vulnerability of JSG's profit margins to volatility in commodity prices. Although there is a provision of price volatility pass on with some lag with most of its customers, which mitigates the risk to an extent. JSG remains exposed to relatively high customer concentration risk as its top-10 customers account for a sizeable part of its revenue. However, ICRA notes that the same has declined steadily in recent years and expected to reduce further over the medium term. Moreover, the risk is also mitigated to an extent due to JSG's healthy share of business and long-standing relations with most of these customers. Also, given that most of the company's earnings are generated from the automotive sector, it remains susceptible to the cyclicality inherent in the industry.

The Stable outlook on the rating reflects ICRA's opinion that JSG will continue to benefit from its established business position, strong relationships with its key customers and stable demand outlook for its products, enabling it to achieve healthy scale up of revenues and accrual generation.

Key rating drivers and their description

Credit strengths

Established market position and extensive experience of promoters in the auto components/accessories industry - Incorporated in 1991, JSG has established itself as a prominent manufacturer of automotive components and accessories. This has been supported by its diverse product profile, established operational track record and sizeable manufacturing set up. Moreover, the company has been promoted by the Kapoor family, who have an extensive experience of more than three decades in the business. The company is an established manufacturer of automotive accessories such as chrome show attachments, door visors and PVC floor mats.

Customer base includes reputed automotive companies – Over the years, JSG has developed a wide customer base of reputed OEMs, namely Maruti Suzuki India Limited (MSIL), Tata Motors Limited, Mobis India Limited, Hero Group and Mahindra and Mahindra Limited, among others. Moreover, the company has maintained a healthy share of business with its key customers, which has supported its healthy revenue growth over the years. Additionally, in recent years, the company has secured orders from other reputed OEMs, including Sonalika Tractors International Limited and Toyota Kirloskar Motor Private Limited.

Diversification of revenue stream through increasing share from exports – The company supplies auto components/accessories to OEMs (64% of revenue in FY2023) and in the after-market segment (27%) under its own brands. In recent years, the company has also scaled up its presence in the export market, which accounted for 8-10% of the total revenue in FY2023, resulting in diversification of its revenue stream. The company remains focussed on further enhancing its exports as well as widening its product base, which, coupled with steady growth in the domestic OEM and aftermarket sales is expected to drive its revenue growth and expansion in margins.

Strengthening financial risk profile – JSG reported robust revenue growth of 84% YoY, with revenues at Rs. 542 crore (Rs. 297 crore in FY2022) supported by its healthy offtake from key clients, additions to customer and product bases, transfer of sales from a company and increasing contribution from exports. Sustaining the momentum, it achieved revenue of Rs. 448 crore in 9M FY2024 and expected to report healthy growth over the near term. Further increasing economies of scale, higher revenue contribution from exports and higher margin-accretive product mix, led to expansion of operating profit margin to 19.3% in 9M FY2024 from 10.2% in FY2023. These factors combined have led to healthy growth in internal accrual generation, which, coupled with moderate debt levels, has led to strengthening of the company's capital structure, debt protection metrics and return indicators. Going forward, JSG is expected to report healthy earnings, which, coupled with reducing reliance on external debt and adequate liquidity, is expected to continue to support its credit profile.

Credit challenges

High competitive intensity of industry; however, JSG benefits from its established business position – Due to the competitive nature of the industry, the company faces pressures from other global and domestic suppliers in terms of pricing flexibility. However, it benefits to an extent from its extensive operational track record and established relationships with its key customers, with whom it enjoys a sizeable share of business.

Profit margins vulnerable to volatility in raw material prices – The company's operating margins are susceptible to fluctuations in the prices of key raw materials — copper, nickel, polymer compounds, etc, which are sourced largely through domestic suppliers as well as through imports. However, JSG has demonstrated its ability to largely pass on the increase in raw material costs, albeit with some lag, which mitigates the risk to an extent.

Relatively high client concentration risk with top-10 customers generating ~75% of total sales in recent years – JSG is exposed to high customer concentration risk as its top-10 customers have accounted for ~75% of its revenues in FY2023. However, this concentration has moderated over the years owing to addition of new customers and diversification into exports as well as non-automotive segments. Also, given that most of the company's earnings are generated from sale of components/accessories for passenger vehicles (PVs) and two-wheelers (2Ws), its earnings remain vulnerable to any supply or demand disruptions in these segments and cyclicality inherent in the overall automotive industry.

Liquidity position: Adequate

JSG's liquidity is **adequate**, supported by steady internal accrual generation, unencumbered cash balances/liquid investments of ~Rs. 4-5 crore as of December 2023 an average undrawn bank lines of ~Rs. 30-40 crore over the past 12 months. The company has low debt repayment liability of Rs. 2-3 crore p.a. over FY2024 and FY2025 and plans to incur capex of Rs. 30-40 crore p.a. over the medium term towards incremental machinery and existing manufacturing set-up, which are expected to be comfortably funded through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade JSG's rating, if the company reports considerable growth in revenue and accrual generation leading to strengthening of net-worth base, while maintaining an optimum working capital cycle and adequate liquidity profile.

Negative factors – Pressure on JSG's rating could arise, if considerable decline in revenue and internal accrual generation, significant debt-funded capex or deterioration in working capital cycle, result in weakening of the company's credit metrics and liquidity position. A specific credit metric that could lead to a downgrade of JSG's rating is if Total Debt/OPBDITA is more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Components](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

JSG, incorporated in 1991, designs and manufactures various automotive components and accessories such as PVC floor mats, door visors, chrome show attachments, 3D graphics labels, etc., that find application in the exteriors and interiors of automobiles. The company has been promoted by the Kapoor family who have an extensive experience of over 30 years in the family business. JSG primarily caters to leading automotive OEMs like MSIL, Tata, Hyundai, and M&M through its manufacturing facilities in Sonipat, Haryana.

Key financial indicators (audited)

JSG – Standalone	FY2022	FY2023	9M FY2024*
Operating income	296.7	542.3	447.7
PAT	12.9	26.6	53.3
OPBDIT/OI	10.0%	10.2%	19.3%
PAT/OI	4.3%	4.9%	11.9%
Total outside liabilities/Tangible net worth (times)	3.3	2.1	1.1
Total debt/OPBDIT (times)	3.8	1.8	0.6
Interest coverage (times)	8.9	10.1	17.6

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization; *Provisional*

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 as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 09, 2024	Jan 04, 2023	-	-
1	**Fund Based – Cash Credit**	Long term	85.00	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	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 – Cash Credit**	NA	NA	NA	85.00	[ICRA]A- (Stable)

Source: Company

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

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Kirit Shah
+91 022 6114 3400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 020 6606 9922
deepak.jotwani@icraindia.com

Charvi Sagar
+91 124 4545 373
charvi.sagar@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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