

JSK Industries Private Limited

July 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	5.70	5.70	[ICRA]A (Stable); reaffirmed
Fund-based - Cash Credit	84.00	84.00	[ICRA]A (Stable); reaffirmed
Non Fund Based - Bank Guarantee	364.00	364.00	[ICRA]A (Stable); reaffirmed
Non Fund Based - Letter of Credit	388.0	388.00	[ICRA]A1; reaffirmed
Total	841.70	841.70	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long -term rating of [ICRA]A (pronounced ICRA A) to the Rs. 5.70-crore¹ term loan, Rs. 84.00-crore fund-based facilities and Rs. 364.00-crore non fund-based facilities of JSK Industries Private Limited. (JSK)². The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 388.00-crore non-fund based bank facilities of JSK.

Rationale

The reaffirmation of ratings reflects the healthy order book position of Rs. 729.20 crore as on March 31, 2018 which provides good revenue visibility in the near term, and favourable medium term outlook of power transmission sector, to which JSK largely caters. The ratings also take into account JSK's reputed clientele comprising large and established entities in power transmission segment and extensive experience of the promoters in the aluminium conductor and wire-rod manufacturing business. The ratings also factor in the limited exposure of JSK to fluctuations in aluminium prices, which is the key raw material, due to price escalation clause in the sales contract with its customers. ICRA notes that the letter of credit (LC) backed sales to non-government entities not only mitigates the counter-party credit risk but also provides additional comfort to its liquidity through the discounting of LCs.

The ratings, however, remain constrained by high competitive intensity and low product differentiation in the conductor manufacturing business, both of which exert pressure on the profit margins of the company. Nevertheless, ICRA notes that the company has plans to set up a new manufacturing facility at Odisha in the medium term and would benefit from bulk discounts and inward freight reduction, which in turn would improve its operating margins. The ratings also take into account JSK's exposure to forex risks to the extent of any mismatch between its imports and exports. The ratings also take into account 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.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes JSK will continue to benefit from the company's long track record and established market position in the aluminium conductor and wire rod business. The outlook may be revised to 'Positive' if substantial growth in revenues and profitability, and better working capital management, further strengthen its financial risk profile. The outlook may be revised to 'Negative' if lower-than-expected cash accruals or elongated working capital cycle impact its liquidity.

Key rating drivers

Credit strengths

Healthy order book position – JSK continues to witness strong order inflow due to its established track record in the power transmission segment. Its clientele include reputed customers like Power Grid Corporation of India Limited ([ICRA]AAA(Stable)/ A1+), KEC International ([ICRA]AA-(Stable)/ A1+), Paschim Gujrat Vij Company Limited ([ICRA]AA-(Stable)/ A1+). The order book provides good revenue visibility in the near term as the typical order turnaround time is between six to nine months.

Limited exposure to raw material price risk – The cost of raw materials accounts for about 65% to 70% of its output. The key raw material is aluminium, the prices of which have witnessed significant volatility in the past. However, price escalation clause in its sales contract enables JSK to pass on any increase in the raw material prices, thereby mitigating price fluctuation risks to a large extent. Nevertheless, ICRA notes that the price escalation clause doesn't cover the premium charged by the suppliers.

Favourable demand outlook the medium term – As per National Electricity Plan 2016 by Central Electricity Authority, an addition of transmission line of 105,580 circuit kilometres at an investment of Rs. 2.6 trillion is expected during the 13th plan period (2017-22). ICRA estimates the long-term energy demand outlook to remain strong and hence JSK is expected to benefit as its end users are in the segment of electricity transmission and distribution.

LC backed sales non-government entities – Majority of JSK's non-government receivables are backed by LCs, which not only part-mitigates counter-party credit risks but also provides flexibility to discount these LCs to improve liquidity.

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 total installed capacity of 1,66,000 metric tonne per annum (MTPA). The company is promoted by Mr. Anish Shah and Mr. Kalpesh Shah, who have more than 10 years of experience in this industry.

Credit challenges

Low profitability, given the intense competition and limited value addition – The company faces intense competition from other established players in the aluminium conductor business. This, coupled with limited value additive nature of operations, keep its operating margins low. However, the profitability of JSK is expected to improve in the medium term after the commissioning of its proposed plant in Odisha, by way of quantity discounts and reduction in freight costs.

Exposure to forex risks – JSK imports a part of its raw material requirements and also has exports presence, leading to benefits of a natural hedge. However, for any mismatch between the extent of imports and exports, the company remains exposed to forex risks.

Exposure to delays in project execution by customers – The company’s revenue growth remains exposed to delays in the project timelines by the project owners due to issues such as delays in receiving right of way etc. However, ICRA notes that the government policy of allocating projects only after major clearances provides some comfort.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

JSK Industries Private Limited (JSK) was established in 2005. Promoted by Mr. Kalpesh Shah, a technocrat, and Mr. Anish Shah, a Chartered Accountant, JSK is engaged in manufacturing of overhead aluminum conductors and wire rods. The end-customers for aluminium 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 1,06,000 metric tonne per annum (MTPA) for conductors and 60,000 MTPA for wire rods. The plant is certified by ISO and its products have been approved by Environmental Management System and Occupational Health and Safety Management System. In 2018, JSK obtained the land allotment in Aluminum Park at Odisha to set up its second manufacturing facility.

As per the provisional results for FY2018, JSK recorded a net profit of Rs. 31.9 crore on an operating income of Rs. 1471.7 crore. JSK recorded a net profit of Rs. 36.4 crore on an operating income of Rs. 1454.3 crore for the year ended March 31, 2017.

Key financial indicators

	FY2017 (A)	FY2018 (P)
Operating Income (Rs. crore)	1454.3	1471.7
PAT (Rs. crore)	36.4	31.9
OPBDIT/OI (%)	5.5%	4.5%
RoCE (%)	34.4%	30.2%
Total Debt/TNW (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.4	0.6
Interest coverage (times)	3.0	2.3

A – Audited; P – Provisional; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: JSK

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016		
				July 2018	May 2017	April 2016	May 2015	April 2015	
1 Term Loan	Long Term	5.70	5.70	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2 Cash Credit	Long Term	84.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
3 Bank Guarantee	Long Term	364.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
4 Letter of Credit	Short Term	388.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	

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

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	Term Loan	May 2015	10.15%	June 2022	5.70	[ICRA]A (Stable)
NA	Cash Credit	-	-	-	84.00	[ICRA]A (Stable)
NA	Bank Guarantee	-	-	-	364.00	[ICRA]A (Stable)
NA	Letter of Credit	-	-	-	388.00	[ICRA]A1

Source: JSK

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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.

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