

Janatics India Private Limited

January 04, 2019

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------------|-----------------------------------|----------------------------------|--|
| Long-term, Cash credit facilities | 36.00 | 50.00 | [ICRA]A (Stable); Upgraded from [ICRA]A-(Stable) |
| Long-term, Term Loans | 15.60 | - | - |
| Long-Term, Unallocated | 7.40 | 9.00 | [ICRA]A (Stable); Upgraded from [ICRA]A-(Stable) |
| Short-Term, Non-fund based | 4.00 | 4.00 | [ICRA]A1; Upgraded from [ICRA]A2+ |
| Total | 63.00 | 63.00 | |

Rationale

The ratings upgrade positively takes into account the considerable improvement in the company's scale in FY2018 and 6M FY2019, a trend which ICRA expects to persist in the near term. Further, the ratings also favourably consider the healthy financial profile, characterised by low gearing and comfortable coverage indicators on the back of low debt outstanding and steady net worth accretion over the years. The ratings continue to draw comfort from the established position of the company with a track record of over 35 years in the pneumatic components business and the considerable experience of the promoters spanning over five decades in the industry. The rating further takes into consideration the diversified clientele catering to various industries, which mitigates risk of any downturn in a particular segment. The ratings are, however, constrained by the moderate scale of operations and the intense competition from large multi-national companies as well as from cheaper imports from China, which limit pricing flexibility. The ratings are further constrained by the vulnerability of the company's profitability to fluctuation in raw material prices and foreign exchange fluctuations.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Janatics India Private Limited will continue to benefit from the established market position of the company and the brand built through its extensive distribution network present throughout the country. The outlook may be revised to Positive if the company's operational and financial risk profile improve due to considerable growth in revenue and profitability, along with improvement in geographical and customer diversification. Conversely, the outlook may be revised to Negative if the profitability declines significantly or if there is any weakening in the capital structure due to decline in profitability or liquidity profile due to increased working capital requirements or stretched receivables.

Key rating drivers

Credit strengths

Long track record of the company in the pneumatic components segment – Janatics is one of the major indigenous players operating in the pneumatic components space for over 35 years, manufacturing different product variants under various categories such as air cylinders, directional control valves, air preparation units, and pneumatic systems. Janatics' operations are managed by Mr. G. C. Nageswaran and Mr. K. Jaganathan, who have extensive experience in the pneumatic component sector.

Strong growth in scale in FY2018, expected to continue in FY2019 - Janatics' operating income (OI) grew at a healthy rate of 16% in FY2018 on the back of favourable demand and realisations. The trend is likely to continue in the current year due to improved demand for its pneumatic components from the textile and construction sectors, supported by regular offtake from the established dealer network and the reputed brand, Janatics.

Diversified clientele mitigates risk of downturn in any particular industry – Janatics' products find use in various industries such as pharmaceuticals, automotive, packaging, food processing, textile etc. As the company caters to diversified industries, it largely mitigates the risk of downturn in any particular industry.

Healthy operating margins in FY2018 - The company's operating margin improved considerably in FY2018 on the back of improved realisation for products, primarily pneumatic systems and valves, supported by improved economies of scale. Further, the per-unit purchasing cost reduced in FY2018, with the company's change in procurement strategy to pre-order its raw material requirements for up to six months and procure on a scheduled basis instead of purchasing on an ad-hoc-basis.

Financial profile characterised by healthy profitability, low gearing and comfortable coverage metrics – Healthy cash accruals over the last five fiscals on the back of sustained profitability amid sizeable term loan pre-payment –in FY2018 and 6M FY2019 resulted in improved capital structure with a gearing of 0.3 times as on March 31, 2018 compared to 0.8 times as on March 31, 2017. Coverage and debt protection metrics have also improved considerably in FY2018.

Credit challenges

Moderate scale of operation – Despite strong growth in FY2018, Janatics' scale of operation continues to remain moderate relative to the competition and market size. Export revenues have continued to remain stagnant with a contribution of less than 5% to the total revenue.

Intense competition from large multi-national companies – The domestic pneumatic industry is dominated by large established multinational companies, which exposes Janatics to intense competition, thereby limiting pricing flexibility. Further, cheap imports also influence the pricing in the industry.

Susceptibility of profitability to foreign exchange rate fluctuation risks and raw material prices – The operating margins remain vulnerable to volatility in raw material prices on the back of high inventory holding position. Further, over the last three fiscals, less than 5% of the total revenue has been derived from export sales. Even though export revenue remains low, Janatics' revenue remains exposed to foreign currency fluctuations in the absence of any hedging and increasing focus towards export revenues.

Liquidity position

The liquidity position of the company has remained strong due to comfortable working capital position arising out of healthy and moderate capex in the recent past. This in turn supports the liquidity profile of the company as evident from the low utilisation of its fund-based working capital limits. Going forward, the company's liquidity position is likely to remain comfortable.

Analytical approach:

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | NA |
| Consolidation / Standalone | NA |

About the company

Janatics India Private Limited, incorporated in 1991 manufactures pneumatic components, which are marketed under its own brand, Janatics. The company has over 2,500 products that are used in various industries such as pharmaceuticals, automotive, packaging, printing, food processing, medical equipment and textile among others. The company traces its roots to the business set up by first generation entrepreneurs Mr. G. C. Nageswaran and Mr. K. Jaganathan in 1977, and commenced operations by developing customised pneumatic cylinders and valves for the textile industry. Janatics operates out of its newly constructed facility in Seerapalayam, Coimbatore.

Key financial indicators (Standalone)

| | FY2017 (Audited) | FY2018 (Audited) |
|------------------------------|------------------|------------------|
| Operating Income (Rs. crore) | 225.7 | 261.8 |
| PAT (Rs. crore) | 10.4 | 21.0 |
| OPBDIT/ OI (%) | 11.9% | 14.0% |
| RoCE (%) | 19.3% | 28.9% |
| Total Debt/ TNW (times) | 0.8 | 0.3 |
| Total Debt/ OPBDIT (times) | 1.9 | 0.7 |
| Interest Coverage (times) | 4.5 | 8.2 |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| | Current Rating (FY2019) | | Chronology of Rating History for the past 3 years | | | | | |
|---|---------------------------|------------|---|---|-------------------------------|--------------------------------|-----------------------------------|---------------------------------|
| | Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding as on September 2018 (Rs. crore) | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 |
| 1 | Fund-based facilitates | Long-Term | 50.00 | 7.79 | [ICRA]A (Stable) January 2019 | [ICRA]A- (Stable) January 2018 | [ICRA]BBB+ (Stable) December 2016 | [ICRA]BBB+ (Stable) August 2015 |
| 2 | Term Loans | Long-Term | - | - | - | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) |
| 3 | Unallocated | Long-Term | 9.00 | - | [ICRA]A (Stable) | [ICRA]A- (Stable) | | [ICRA]BBB+ (Stable) |
| 4 | Non-fund based facilities | Short-Term | 4.00 | - | [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 | Fund based facilitates | - | NA | - | 50.00 | [ICRA]A- (Stable) |
| NA | Unallocated | - | NA | - | 9.00 | [ICRA]A- (Stable) |
| NA | LC/ BG | - | NA | - | 4.00 | [ICRA]A2+ |

Source: Janatics

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