

March 28, 2024

J S Auto Cast Foundry India Private Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term, Fund-based / Non Fund-based Limits	75.00	75.00	[ICRA]A+(Stable)/ [ICRA]A1; reaffirmed
Long Term – Fund Based / Term Loan	0.00	182.10	[ICRA]A+(Stable); assigned
Total	75.00	257.10	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continued to 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 expectations of synergies for JS Auto from the acquisition by BFL 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. ICRA notes many of these synergies have already started to materialize for JS Auto, thus supporting its operational and financial profile.

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 is constrained by the sizeable debt funded CAPEX to the tune of ~Rs. 150 crore in FY2023-9M FY2024, which resulted in a steep increase in the overall debt level, from Rs. 108.8 crore (March 2022) to Rs. 237.6 crore (December 2023). This has resulted in the weakening of debt coverage metrics with Total Debt / OPBITDA of 3.9 times as of December 2023 (2.0 times as of March 2022). ICRA expects the capital expenditure to contribute towards the topline, and profitability in FY2025, and FY2026 and hence expects a gradual improvement in the debt coverage metrics going forward.

The rating strengths are also partially offset by concentration risks from its dependence on the renewable energy sector for over 40% of its revenues in FY2023 – 9M FY2024, which exposes its business to the cyclicity 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 FY2023 (65% in 9M FY2024); although onboarding of new clients post acquisition by BFL is likely to help mitigate this, going forward. The ratings also factor in the current moderate scale of operations, with revenues of Rs. 438 crore in FY2023; 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 over the medium term. JS Auto's capital structure continues to remain moderate along with the modest net worth base, as reflected by gearing of 2.1 times as on March 31, 2023; however, financial support from BFL, the parent entity, in the form of equity infusion in case of exigencies provides some comfort.

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 (in the form of 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. After positioning itself as an established player in the smaller-size renewable energy castings segment, JS Auto now plans to venture into the medium-size renewable energy castings segment, which is likely to support its revenue and profitability profile over the medium term.

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 (42% and 49% revenue share from exports in FY2023 and H1 FY2024, respectively), 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

Sizeable debt-funded capex undertaken to moderate coverage ratio in the medium term – JS Auto has undertaken sizeable capex to the tune of ~Rs. 150 crore in FY2023-9M FY2024, including acquisition of the manufacturing unit from ISML during FY2023. Although the said acquisition was fully funded through equity infusion from BFL, other major capex initiatives have largely been funded through bank borrowings, which resulted in a steep increase in the overall debt level, from Rs. 108.8 crore (March 2022) to Rs. 176.9 crore (March 2023) and further to Rs. 237.6 crore (December 2023). This has resulted in the weakening of debt coverage metrics with Total Debt / OPBITDA of 3.9 times as of December 2023 (2.0 times as of March 2022). ICRA expects the CAPEX to contribute towards the topline, and profitability in FY2025, and FY2026 and hence expects a gradual improvement in the debt coverage metric.

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. In this context, ICRA notes the healthy revenue generation reported in the present fiscal, with JS Auto having clocked revenues of Rs. 390 crore in 9M FY2024 (as against Rs. 438 crore in FY2023), underlining a steady revenue growth momentum.

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 recent past (FY2022-FY2023) 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 revenue expansion as well as earnings recovery. ICRA also notes on the expected improvement in revenues from the automotive segment primarily on the back of client acquisitions through BFL, thereby reducing the dependence on the wind energy segment.

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 about 70% of its revenues from its top five customers in FY2023. 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.

Liquidity position: Adequate

JS Auto’s liquidity profile is adequate, with cash flows of Rs. 30-40 crore generated annually. It is further supported by moderate cash and liquid investments and sufficient buffer in the form of undrawn working capital limits, which collectively stood at Rs. 23 crore as on December 31, 2023. Against these, the company has debt repayment obligations of ~Rs. 15-35 crore per annum over the near to medium term (which is expected to be serviced through steady accruals generation), and capex requirements of ~Rs. 60 crore in FY2025 (likely to be funded through a mix of debt and internal accruals). BFL is expected to further support the entity through 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, and improvement in debt coverage metrics. Improvement in the credit 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 and equity infusion in the recent past, 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

three plants in Tamil Nadu —(i.) Perundurai, where most of its foundry operations take place, (ii.) Kuppepalayam, where machining and dispatching operations take place, and (iii.) SEZ unit, which was acquired from ISML in FY2023. The overall installed capacity presently stands at ~100,000 MTPA. 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.

Key financial indicators

JS Auto	FY2022 Audited	FY2023 Audited	9M FY2024 Provisional
Operating Income (Rs. crore)	409.9	437.6	390.9
PAT (Rs. crore)	6.6	10.5	9.2
OPBDIT/OI (%)	13.5%	9.5%	11.8%
PAT/OI (%)	1.6%	2.4%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.1	3.4	2.3
Total Debt/OPBDIT (times)	2.0	4.2	3.9
Interest Coverage (times)	2.8	2.3	2.9

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. Infomercials Ratings: IVR BB/Negative/IVR A4 ISSUER NOT COOPERATING, revised from IVR BB+ with Negative outlook / IVR A4+ and continued under ISSUER NOT COOPERATING category; press release dated October 3, 2023.
2. Acuite Ratings: ACUITE B+/ACUITE A4 | Reaffirmed | Issuer Not-Cooperating; press release dated August 9, 2023.
3. CRISIL Ratings: CRISIL B/Stable/CRISIL A4 ISSUER NOT COOPERATING; press release dated March 20, 2023.

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 December 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					March 28, 2024			
1	Fund based / Non fund based Working Capital Facilities	Long- term / Short- term	75.00	52.10	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	-	-
2	Term Loan	Long-term	182.10	164.67	[ICRA]A+(Stable)	-	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based / Non fund based Working Capital Facilities	Simple
Term Loan	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	Term Loan – 1	FY2023	NA	FY2028	24.00	[ICRA]A+(Stable)
NA	Term Loan – 2	FY2023	NA	FY2028	59.60	[ICRA]A+(Stable)
NA	Term Loan – 3	FY2024	NA	FY2029	28.50	[ICRA]A+(Stable)
NA	Term Loan – 4	FY2023	NA	FY2028	70.00	[ICRA]A+(Stable)
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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