January 31, 2023

Jasper Industries Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital	171.40	180.40	[ICRA]BB+ (Stable); Reaffirmed
Long-term Fund-based – Term Loan	46.71	70.32	[ICRA]BB+ (Stable); Reaffirmed
Long-term/ Short-term – Unallocated	99.14	66.53	[ICRA]BB+(Stable)/[ICRA]A4+; Reaffirmed
Total	**317.25**	**317.25**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider Jasper Industries Private Limited's (JIPL) established operational track record as an authorised dealer of commercial vehicles (CV) and passenger vehicles (PV) of Tata Motors Limited (TML) with more than 75 touch points and the strong association of the Jasper Group with the Tata Group of companies. The rating also considers the strong market position of JIPL in both PV and CV segments in Andhra Pradesh and Telangana. After being impacted by the increased competition in FY2021, JIPL's revenues witnessed a healthy recovery in FY2022 with strong revenue growth of 61% on the back of improved demand. The company is expected to witness a strong revenue growth of 28-30% in FY2023 driven by healthy demand for TML's PVs and recovery in CV demand. In 9M FY2023, sales volumes increased by 33% and 25% in CV and PV segments, respectively. TML's market leadership position in CVs and healthy demand for its PVs augurs well for JIPL's growth, going forward.

The ratings are, however, constrained by JIPL's moderate financial profile characterised by leveraged capital structure and modest debt coverage indicators. The company's debt levels are expected to increase in FY2023 as the company has repaid Rs. 20 crore compulsory convertible debentures (CCDs; which were expected to be converted to equity) from Tata Motors Financial Solutions Limited (TMFSL), which was funded through term loans. Moreover, increased working capital borrowings and terms loans availed to fund the capex would impact the company's debt metrics. ICRA also notes that the company has made provisions for Rs. 17.9-crore receivables, Rs. 19.0-crore advances and Rs. 7.0 crore of investments (which were extended to Group companies), which have impacted it. The ratings also factor in the company's thin profit margins, inherent to the dealership nature of the business, as new vehicle sales, which dominate the revenue mix, command lower margins. The ratings consider intense competition from dealers of TML and other original equipment manufacturers (OEMs) in the region. The ratings also consider high geographical concentration risk as revenues are generated only from Andhra Pradesh and Telangana. Further, the ratings consider the company's stretched liquidity profile, given the limited buffer in working capital limits and modest free cash.

The Stable outlook on the rating reflects ICRA's opinion that JIPL will continue to record healthy revenue growth, given its established position as a dealer of TML's CVs and PVs in Andhra Pradesh and Telangana, which would support growth in its earnings.

Key rating drivers and their description

Credit strengths

Established track record as TML dealer; recovery in demand expected to support revenue growth – JIPL is an authorised dealer of TML's CVs and PVs with a wide sales network across Andhra Pradesh and Telangana. JIPL was one of the first few dealers appointed by TML in 1954. Further, TML is the largest CV manufacturer in India with a 44.6% market share in FY2022;

and its leadership position is expected to support JIPL's revenues. The company has a wide sales network with around 75 touch points across all the districts of Telangana and three districts of Andhra Pradesh. Healthy demand for both PV and CVs is expected to support the company's revenues in the near term. The company is expected to witness a strong revenue growth of 28-30% in FY2023, driven by healthy demand for TML's PVs and recovery in CV demand in 9M FY2023.

Strong relationship with Tata Group – JIPL has enjoyed an established relationship with the Tata Group of Companies since its establishment. JIPL undertakes automotive body building activities for TML's chassis requirements at its Uttar Pradesh plant by its subsidiary, Adithya Automotive Applications Private Limited (AAA).

Credit challenges

Moderate financial profile –The company's total debt increased to Rs. 306.0 crore as on September 30, 2022, from Rs. 240.9 crore as on March 31, 2022, owing to increase in working capital borrowings and term loans availed to repay of CCDs and to fund capex requirements. The increase in the total debt and lower profits will result in the moderation of the capital structure with TD/TNW between of 2.0–2.2 times and debt coverage metrics with TD/OPBIDTA between 7.0–9.0 times and interest coverage between 1.3–1.5 times in FY2023.

Thin margins and low bargaining power inherent to dealership; revenue concentration on single principal – The dealership business is characterised by thin margins and low bargaining power of the dealer, as margins on vehicles are determined by the principal. Further, intense competition in the auto dealership business results in low margins. JIPL's operating margin decreased to 2.3% in H1 FY2023 from 3.1% in FY2022 owing to high proportion of vehicle sales and high fixed overheads. The company's operating margins are expected to remain at 2.5–3.0% in FY2023. JIPL faces revenue concentration as its revenues are solely dependent on a single principal, TML, for both CVs and PVs. Moreover, JIPL's revenues and earnings are vulnerable to the underlying cyclicality inherent in the CV industry.

Intense competition in the industry – Although the company is an authorised dealer of TML, its sales and profitability remain susceptible to intense competition from dealers of TML as well as other OEMs in the region. The dealers have to pass on additional benefits to customers to increase sales owing to intense competition, which impacts their profitability to an extent.

Liquidity position: Stretched

The company's liquidity position is stretched, as reflected in the limited buffer available in the working capital. While the company had free cash and bank balances of Rs. 14.4 as on September 30, 2022, it has high repayment obligations of Rs. 12-16.0 in the next 12 months. The company is expected to incur a capex of Rs. 15.0–16.0 crore in FY2023 that will be funded through Rs. 10.0 crore of term loan and the remaining through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a healthy revenue growth while maintaining its profitability, leading to improvement in its debt protection metrics and liquidity position.

Negative factors – The ratings may be downgraded if any further decline in the scale of operations or lower profitability impacts its financial performance or liquidity position. A weakening of interest coverage below 1.2 times on a sustained basis could also exert pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology -Automobile Dealerships]
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

JIPL was set up in 1955 by Mr. Badiga Seshagiri Rao as a partnership firm and was converted into a private limited company in 1987. It was among the earliest dealers appointed by TML in 1955. Starting with its first outlet for TML's CVs at Vijayawada in 1955, the company today has around 71 touch points across all districts of Telangana and three districts of Andhra Pradesh, where it is the exclusive dealer of TML's CVs. Jasper Automobiles Private Limited (100% subsidiary of JIPL), was involved in the sale of PVs in three districts of Andhra Pradesh and was merged with JIPL with effect from April 1, 2018. At present, JIPL sells both PVs and CVs. The Jasper Group is involved in the manufacturing of automotive applications (primarily body building) for TML through Adithya Automotive Applications Private Ltd.

Key financial indicators (audited)

JIPL Standalone	FY2021	FY2022	H1 FY2023*
Operating income	671.3	1,080.8	692.6
PAT	1.7	5.1	3.2
OPBDIT/OI	3.9%	3.1%	2.3%
PAT/OI	0.2%	0.5%	0.5%
Total outside liabilities/Tangible net worth (times)	1.7	2.0	2.7
Total debt/OPBDIT (times)	6.8	7.1	9.5
Interest coverage (times)	1.4	1.4	1.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

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 December 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jan 31, 2023	Oct 08, 2021	Aug 04, 2020	Oct 03, 2019	Apr 08, 2019
1	**Working Capital**	Long Term	180.40	-	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BBB- (Negative)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Positive)**
2	**Term Loan**	Long Term	70.32	83.50	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BBB- (Negative)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Positive)**
3	**Unallocated**	Long Term/ Short Term	66.53	-	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[ICRA]BBB- (Negative)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Positive)/ [ICRA]A3**
4	**Non-fund based limits**	Short Term	-	-	-	-	-	-	**[ICRA]A3**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital	Simple
Term Loans	Simple
Unallocated	Not Applicable

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	**Working Capital**	NA	NA	NA	180.40	[ICRA]BB+ (Stable)
NA	**Term Loan**	FY2018	NA	FY2032	70.32	[ICRA]BB+ (Stable)
NA	**Unallocated**	NA	NA	NA	66.53	[ICRA]BB+ (Stable)/ [ICRA]A4+

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

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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.

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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