

## Press Release

### Jain Engineering Works

December 02, 2019

#### Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Non Fund Based – Bank Guarantee	15.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook )
	<b>Total</b>	<b>15.00</b>	

#### Details of Facilities are in Annexure I

#### Detailed Rationale

The aforesaid rating derives comfort from extensive experience of promoter, entry into new segment, improved operating income & order book position, judicious inventory management and higher net worth through subordination of unsecured loans. However, the strengths are partially offset by working capital intensive nature of operations.

#### Key Rating Sensitivities

##### *Upward Factors*

- Increasing revenues from water pipeline projects
- Improvement in gearing and net worth
- Improving liquidity

##### *Downward Factors*

- Further elevation of net working capital cycle
- Increased segment specific concentration risks

#### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

##### Experience of Promoter

The partners of JEW, Mr Suni Surana possesses extensive experience of over 30 years in the field. Through his experience in engineering sector as EPC Contractor he has delivered various

engineering and civil projects on Turnkey or segment specific basis. In the past he has executed various projects of Government, private sector and MNC entities.

### **Entry into water management infrastructure development projects for government and semi government agencies**

Until now the firm was a manufacturer and service provider of prefabricated structures. Apart from this it also used to undertake construction of irrigation projects in small scale. But from 2019 onwards it has entered into executing irrigation and drinking water pipeline projects in large scale at Madhya Pradesh and Chattisgarh. This entry into large projects is expected to provide economies of scale and generate more revenues in coming years.

### **Improved operating income with healthy order book position providing revenue visibility**

Net revenues increased by 27% y-o-y for FY 18-19 as against 9% deterioration in the corresponding period previous year. Even though EBITDA margin reduced to 22.52% in FY 19 from 29.24% in FY 18, it remained healthy. The order book of the firm is healthy at Rs.393 crores. The orders that are due for completion in the current financial year amount to Rs 92.44 crore.

### **Maintenance of order backed inventory**

Jain Engineering is involved in providing customized infrastructure solutions suiting the customer's requirement while maintaining quality and safety. It ensures timely delivery of projects at competitive prices to customers. It is dealing in manufacturing of dam gates, Industrial sheds, PEB warehouses, fabrication work etc. The maintenance of order backed inventory helps in avoiding the inventories getting obsolete.

### **Higher Net Worth through subordination of unsecured loans**

The firm's long term debt comprises only of unsecured loans which is given by small entities and individuals. As the unsecured loans in its books is subordinated to the credit facilities taken from the bank, there is a cushion in debt parameters going forward. Due to this benefit it is having a comfortable net worth of Rs 48 crores for FY 16 and TOL/TNW stands at 0.21 times.

### **Key Rating Weaknesses**

#### **Working Capital intensive nature of operations**

JEW holds high level of inventory, receivables and security deposits whereas cash accruals are very low leading to liquidity constraints. Hence it has to rely on additional credit facilities from the bank for meeting its day to day operations. Currently the firm has availed only bank guarantees and given the wide net working capital there is requirement in getting additional credit facilities.

### **Delays in realisation of receivables**

The firm faces risks in realising revenues from irrigation and drinking water pipeline projects which accounts for nearly 80% of its overall revenues. Some of the dam projects that it is executing are budgeted projects through state governments and some are ADB funded projects. The receivables realisation is delayed in the budgeted projects.

### **Analytical Approach & Applicable Criteria**

Standalone

Rating Methodology for Construction Companies

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity**

The company liquidity remained stretched as majority of the funds is being blocked in the current assets. The company is managing the liquidity by pumping in unsecured loans. As the revenue increase moving forward, the company needs a working capital tie-up as well as better management of gross working capital cycle.

### **About the Company**

Jain Engineering Works (JEW) was founded by Mr Suni Surana, an experienced and qualified Mechanical professional who has a wide experience of over 30 years in the industry. It was established in 1988 in the city of Indore, Madhya Pradesh. JEW is registered as “Class-A Contractor in Madhya Pradesh & Chattisgarh”. It is a manufacturer and service provider of PEB (Pre Engineered Building) Structure, Dam Gates, Industrial Sheds, Prefabricated Structures, PEB Office Cabins and Heavy Fabrication Services. Jain Engineering Works has in-house facility of heavy engineering design required for building heavy machines and tools required for manufacturing heavy engineering components and machines. The set-up for fabrication, machining, metalizing and painting operations are all encapsulated at JEW. At the time of establishment, there were three business units only. Over the years, as the business grew, they

were spun off into separate businesses and the focus was more on delivering complete solutions for various departments like Water Resources Department, Urban Administration and Development Department, MP Jal Nigam Maryadit, Narmada Valley Development Authority, Indian Railways, Municipal cooperation of different cities in Madhya Pradesh and Chattisgarh.

## Financials

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Provisional)
Total Operating Income	20.12	25.65
EBITDA	5.88	5.78
PAT	0.36	0.51
Total Debt	7.81	4.35
Tangible Net worth	44.47	48.08
<b>Ratios</b>		
EBITDA Margin (%)	29.24	22.52
PAT Margin (%)	1.79	2.00
Overall Gearing Ratio (x)	0.09	0.09

Note: Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**Any other information: N.A**

## Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Non Fund Based Limits – Bank Guarantee	Long Term	15.00	IVR BB/Stable Outlook	--	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## About Infomerics:

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## Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Non Fund Based Limits – Bank Guarantee	--	--	--	30.00	IVR BB / Stable Outlook