

Rating Rationale

January 09, 2024 | Mumbai

Jakson Limited

Rating outlook revised to 'Stable'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2100 Crore
Long Term Rating	CRISIL AA-/Stable (Outlook revised from 'Negative'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.50 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long term bank facilities of Jakson Limited (JL; part of the Jakson Group) to **'Stable'** from **'Negative'** while reaffirming the rating at **'CRISIL AA-'**. The short term rating and commercial paper has been reaffirmed at **'CRISIL A1+'**.

The revision in outlook considers a belief that the business risk profile of the Jakson group will continue to improve, driven by significant increase in revenue and profitability. Revenue is likely to rise over Rs 3,500 crore in fiscal 2024 from ~Rs 2,251 crore in fiscal 2023, with healthy growth expected in the distributed energy business (DEB) and the engineering procurement and construction (EPC) business; revenue is projected at more than Rs 4,000 crore in fiscal 2025. The order book across segments, estimated at 3.7-3.8 times of fiscal 2023 turnover, provides healthy revenue visibility over the medium term. The operating profitability is expected to improve to more than 6% in fiscal 2025 from expected profitability of 5.6% in current fiscal on account of economy of scale and execution of high margin orders. Thus, cash accrual is expected over Rs 147 crore in fiscal 2024 as compared to Rs 92 crore in fiscal 2023.

The business risk profile will remain supported by a likely improvement in the working capital cycle, with gross current assets (GCAs) expected at around 190 days in the near term (from more than 210 days in the past).

The financial risk profile will be healthy, with gearing projected at less than 0.5 time and total outside liabilities to tangible networth ratio at 1.6 times for the medium term, despite the debt-funded capital expenditure (capex) in Ethan Natural Bio-Fuel Pvt Ltd (ENBFPL). Liquidity may continue to be strong, with unencumbered cash and cash equivalents of Rs 315 crore as on March 31, 2023, and low bank limit utilisation of 18% during the 12 months through September 2023.

The ratings continue to reflect the established market position of the group in the diesel generator (DG) industry, diversified revenue profile and strong financial risk profile. These strengths are partially offset by intense competition from other GoEMs, coupled with cyclicity in the industry, tender driven nature of business under the EPC segment and large working capital requirement.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of the subsidiaries of JL, including Jakson Green Pvt Ltd (JGPL) and Ethan Natural Bio-Fuel Pvt Ltd (ENBFPL) along with the business and financial risk profiles of Jakson International PTE Ltd (JIPL) and Jakson Arabia Limited (JAL). This is because these entities, collectively referred to as the Jakson group, have significant business and financial linkages. CRISIL Ratings has also moderately consolidated the likely special purpose vehicles (SPVs) for the group's independent power producer (IPP) projects since their debt is likely to be non-recourse to the parent. In line with the moderate consolidation approach of CRISIL Ratings, the equity requirement and expected cost overrun in projects have been factored into the financials of the company.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Established market position in the DG industry: The Jakson group is an authorised original equipment manufacturer (OEM) for generators of Cummins Ltd (Cummins) since 1982. Cummins is one of the leading manufacturers of DG sets in India. The group manufactures diesel generators from 7.5 kVA to 3,750 kVA to cater to various requirements across the residential, commercial and industrial segments. Established market position, longstanding relationship with Cummins as

one of its three authorised OEMs, and stable business growth has resulted in continuous year-on-year growth in the segment. Turnover from the segment should increase to over Rs 1,600 crore in fiscal 2024, as compared to Rs 1,450 crore and Rs 1,050 crore in fiscals 2023 and 2022, respectively, backed by healthy orderbook of Rs 1,040 crore as on December 1, 2023.

Healthy business diversity supports scale and sustainability: Jakson group started as a manufacturer of generators. Over the years, it has established its position as a manufacturer of diesel generators for Cummins Ltd. In 2016, the Jakson group entered rural and urban electrification EPC business and within a short span of time, has been able to significantly scale up its operations. Further diversification in the order book under EPC segment into solar EPC, substations and transmission projects and Metro rail electrification, among other segments, has helped the group reduce its dependence on any one counterparty and has led to significant scaling up of group along with lower working capital requirement as the orders from the solar segment have lower gestation period and better profitability. This will also result in its scale of operations increasing healthily to over Rs. 3,500 crore in fiscal 2024 as compared to Rs. 2,251 crore in fiscal 2023. The group's ethanol project will also be completed in January 2024, and is expected to contribute to turnover in fiscal 2025.

Strong financial profile: The Jakson group's capital structure has been healthy because of lower reliance on external borrowings and constant accretion to reserves with minimum dividend payout. Networth was Rs 943 crore as on March 31, 2023, and gearing was below 0.5 time over the last decade. There are limited long-term borrowings while the majority debt comprises of short-term working capital fund which is revolving in nature. The group's capital structure is expected to remain below 0.5 time despite capital expenditure (capex) in ENBFPL to set up a grain-based ethanol plant. Furthermore, as the debt for IPP projects is likely to be non-recourse to the parent, the group's capital structure is not expected to be impacted by it. The Jakson group's debt protection metrics have also been healthy because of low leverage and moderate profitability. CRISIL Ratings believes the group's financial risk profile will continue to remain strong over the medium term.

Weaknesses:

Intense competition from other GoEMs, coupled with cyclicity in the industry: Cummins has three GoEMs for the supply of diesel generator sets in India wherein JL is exposed to intense competition from other GoEMs. However, due to its superior technical execution and technological strength, JL is the only authorised GoEM for the defence sector whereas the other two GoEMs are not classified as such. This gives the group competitive advantage and growth opportunities within the genset business segment. The diesel generator business is cyclical in nature and is exposed to changes in the economic cycle. The group's revenue and profitability may remain exposed to fluctuations in demand from the end-user industry.

Presence in the competitive EPC segment and exposure to tender-driven business: The group remains exposed to intense competition in the electrical and solar EPC business, which has low entry barriers. Moreover, there is high dependence on orders received from government bodies as well as private players, which are generally awarded through competitive tender bidding. Absence of price escalation clauses for older orders in the existing order book had led to moderation in the operating profitability. However, it is expected to improve over the medium term since the group has incorporated the price escalation clause in future orders, and it is expecting higher operating margin from its ethanol unit.

Working capital-intensive operations: Though GCAs improved to 217 days as on March 31, 2023, from 233 days as on March 31, 2022, the operations of the group continue to remain working capital intensive. The improvement is largely on account of better realisation, especially under the EPC segment. With shift and focus from rural and urban electrification contracts under the EPC segment (due to their long gestation period and large working capital cycle) to solar, metro and other international EPC contracts, CRISIL Ratings believes the working capital cycle should improve further over the medium term. Improvement in its working capital cycle is a key rating sensitivity factor.

Liquidity: Strong

The working capital limits of the Jakson group have remained moderately utilised at 18% on average for the 12 months through September 2023. Cash accrual remained healthy at Rs 92.5 crore in fiscal 2023 and is expected to remain healthy at over Rs 150 crore each in fiscals 2024 and 2025, against debt obligation of Rs 0.7 crore and Rs 10.7 crore, respectively. The surplus liquidity will help meet incremental working capital requirements. The current ratio was comfortable at 1.63 times as on March 31, 2023. Furthermore, the group has been maintaining high unencumbered cash and liquid investments of around Rs 315 crore as on March 31, 2023, and estimated at similar levels as on date. The group is expected to maintain its unencumbered cash and liquid investments over the medium term. It does not have any major dividend payout or investment plans. With no major, debt-based capex planned over the medium term, the surplus generated out of business activities will help increase the cash reserves further. Low gearing and high networth support the company's financial flexibility and provide the financial cushion required in case of any adverse conditions or downturn in the business.

Outlook: Stable

The outlook reflects the established market position of the group in the DE segment and its healthy orderbook (EPC as well as DE), which should support the business risk profile over the medium term.

Rating Sensitivity Factors

Upward factors

- Increase in scale of operations with operating margins over 7% leading to higher-than-expected cash accruals
- Sustainable improvement in the working capital cycle with reduction in GCA days.
- Timely completion and ramp up of operations for ethanol unit.

Downward factors

- Decline in profitability below 5% and/or scale of operations by 15% on a sustained basis leading to lower-than-expected cash accruals.
- Substantial increase in working capital requirement or higher than expected capex weakening liquidity and financial profile.

- Higher than expected investment or capex adversely impacting liquidity.

About the Group

Incorporated in 1997, JL is a part of the Jakson group which has been operating since 1945. The group was promoted by Mr Satish Kumar Gupta. It is currently managed and run by his two sons, Mr Sameer Gupta and Mr Sandeep Gupta. JL manufactures diesel engines and is an authorised supplier of gensets for Cummins in India. In 2016, JL further diversified into the EPC business and entered government contracts for rural and urban electrification and gradually expanded into solar EPC, substations and transmission projects, and Metro rail electrification, among other businesses. The company has its corporate office in Noida, Uttar Pradesh and two manufacturing units in Pune, Maharashtra, and Kalsar, Gujarat. The subsidiary, JIPL, is in a similar line of business for the overseas market.

Jakson Green Private Limited (JGPL) incorporated in fiscal 2023 wherein JL holds around 66% and the company is undertaking EPC projects for the renewable sector.

Jakson International PTE Ltd has been operating since 2009 is based out of Singapore and has been distribution of DG sets and supplying the same in the overseas market.

Ethan Natural Bio-Fuel Private Limited was incorporated in June 2022 as a subsidiary of JL with a 71% shareholding in the entity. The company is setting up a 150 KLPD grain-based ethanol manufacturing plant at Village Basi, Tehsil Waraseoni, District Balaghat, MP to cater to the Ethanol Blending Programme (EBP) of Government of India. The same is expected to get commissioned by January 2024.

Key Financial Indicators

As on / for the period ended March 31 [#]	Unit	2023	2022
Operating income	Rs crore	2,251.32	2,093.41
Reported profit after tax (PAT)	Rs crore	83.63	70.55
PAT margin	%	3.71	3.37
Adjusted debt/adjusted networkth	Times	0.13	0.16
Interest coverage	Times	5.71	5.00

[#]CRISIL Ratings adjusted financials

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Levels	Rating assigned with outlook
NA	Fund-Based Facilities	NA	NA	NA	15	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	10	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	40	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	25	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	10	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	20	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	10	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	75	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	10	NA	CRISIL AA-/Stable
NA	Non-Fund Based Limit	NA	NA	NA	191	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	110	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	150	NA	CRISIL A1+

NA	Non-Fund Based Limit	NA	NA	NA	125	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	95	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	75	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	150	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	195	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	125	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	250	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	100	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	150	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	90	NA	CRISIL A1+
NA	Proposed Working Capital Facility	NA	NA	NA	79	NA	CRISIL AA-/Stable
NA	Commercial paper	NA	NA	7 to 365 Days	50	Simple	CRISIL A1+

Annexure – List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Jakson Limited	Full Consolidation	Parent entity.
Jakson Green Private Limited		Subsidiary entity with similar lines of business, operating and financial linkages and corporate guarantee from JL.
Ethan Natural Bio-Fuel Private Limited		Subsidiary entity with corporate guarantee from JL.
Jakson International Pte. Ltd		Subsidiary entity with similar lines of business and operating and financial linkages.
Jakson Arabia Limited		Subsidiary entity with operating and financial linkages.

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	294.0	CRISIL AA-/Stable		--	24-03-23	CRISIL AA-/Negative	08-03-22	CRISIL AA-/Stable	11-05-21	CRISIL A+/Positive	CRISIL A+/Stable
			--		--	06-03-23	CRISIL AA-/Negative	25-01-22	CRISIL AA-/Stable		--	CRISIL A+/Stable / CRISIL A1
			--		--	23-01-23	CRISIL AA-/Negative		--		--	--
Non-Fund Based Facilities	ST	1806.0	CRISIL A1+		--	24-03-23	CRISIL A1+	08-03-22	CRISIL A1+	11-05-21	CRISIL A1+ / CRISIL A+/Positive	CRISIL A+/Stable / CRISIL A1
			--		--	06-03-23	CRISIL A1+	25-01-22	CRISIL A1+ / CRISIL AA-/Stable		--	CRISIL A1
			--		--	23-01-23	CRISIL A1+		--		--	--
Commercial Paper	ST	50.0	CRISIL A1+		--	24-03-23	CRISIL A1+	08-03-22	CRISIL A1+	11-05-21	CRISIL A1+	CRISIL A1
			--		--	06-03-23	CRISIL A1+	25-01-22	CRISIL A1+		--	--
			--		--	23-01-23	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
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Fund-Based Facilities	15	IndusInd Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	10	Canara Bank	CRISIL AA-/Stable
Fund-Based Facilities	40	HDFC Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	25	State Bank of India	CRISIL AA-/Stable
Fund-Based Facilities	10	The Federal Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	20	ICICI Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	10	YES Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	75	Axis Bank Limited	CRISIL AA-/Stable
Fund-Based Facilities	10	Indian Bank	CRISIL AA-/Stable
Non-Fund Based Limit	191	IndusInd Bank Limited	CRISIL A1+
Non-Fund Based Limit	110	RBL Bank Limited	CRISIL A1+
Non-Fund Based Limit	150	Punjab National Bank	CRISIL A1+
Non-Fund Based Limit	125	HDFC Bank Limited	CRISIL A1+
Non-Fund Based Limit	95	Axis Bank Limited	CRISIL A1+
Non-Fund Based Limit	75	The Federal Bank Limited	CRISIL A1+
Non-Fund Based Limit	150	IDFC FIRST Bank Limited	CRISIL A1+
Non-Fund Based Limit	195	Citibank N. A.	CRISIL A1+
Non-Fund Based Limit	125	State Bank of India	CRISIL A1+
Non-Fund Based Limit	250	YES Bank Limited	CRISIL A1+
Non-Fund Based Limit	100	ICICI Bank Limited	CRISIL A1+
Non-Fund Based Limit	150	Canara Bank	CRISIL A1+
Non-Fund Based Limit	90	Indian Bank	CRISIL A1+
Proposed Working Capital Facility	79	Not Applicable	CRISIL AA-/Stable

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Power Generation Utilities](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

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