



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## JASCH INDUSTRIES LTD

### WHAT WE LIKE

#### THRIVING ON 2 DISTINCT BUSINESS SEGMENTS

- 1. PU/PVC Coated fabrics** are mostly used in the footwear industry, in the garment industry (as lining material) and in automobiles (as seat covers). These are also used in furniture upholstery material, ladies' and gents' purses, bags, luggage and also in the manufacture of sports goods & accessories.
- 2. Radiation-based Gauging Systems** are used for online measurement of thickness, grammage, moisture & ash contents in paper making industry, on-line measurement of thickness & coating weight in plastics, steel, sheet rolling, galvanizing, aluminum foil & non-ferrous metal rolling industry.

#### STRATEGIC LOCATION OF PLANTS

The synthetic Leather Industry in India is mostly concentrated in Northern India and Western India. Jasch's state-of-the-art manufacturing facility at Sonapat, Haryana, India is at one of the India's ultra-efficient manufacturing hubs.

#### MARQUEE CLIENTS



#### POSSIBLE UNLOCKING OF VALUE THROUGH DEMERGER

Jasch Ind wishes to demerge the electronic Gauges segment into a separate company named Jasch Gauging Technologies Ltd.

#### The 6-point rationale shared by the management are:

- Focused Management of separate businesses
- Operational efficiencies
- Easier access to funds for growth
- Independent collaboration & expansion
- Improved financial ratios
- Flexibility to current shareholders

The demerger petition pending before NCLT is due for hearing on 09-11-2022.

#### RECENT ORDER WINS + ATTRACTIVE VALUATION

Jasch Ind has entered into royalty based technical licensing know-how agreement with a foreign company for production of PU resins. Test marketing shows encouraging response.

Given the strengths in the business, deleveraging Balance Sheet (almost debt free), and high return ratios (ROE=33%), the current valuation looks attractive at 11 times earnings and 1 times sales.

### WHAT WE DON'T LIKE

#### USER INDUSTRY CONCENTRATION

Any downward trend in footwear Industry may result in significant impact on the PU/PVC segment of the company.

We at SSS however notice that the company has been able to diversify usage of its products in other industries such as automobile, sports goods and garment industries to the extent of 40%.

Electronic gauges are primarily used in paper, plastic, steel and galvanizing industry. These are all cyclical sectors and move up and down with economic cycles.

#### COMMODITY EXPOSURE

About 65% raw materials (comprising of Dioctyl Phthalate, Dimethyl formamide, PVC resin, man-made fabrics, pigments, etc) used by PVC /PU Synthetic Leather Division are petroleum-based products. Any increase in the international crude-oil price may adversely affect the prices of petroleum-based raw materials, thereby increasing the cost of production.

#### CUSTOMER/ GEOGRAPHIC CONCENTRATION

Excessive exposure to a few large clients has the potential to adversely affect the sales and profitability in view of failure/shift of clients to other manufactures.

Plus, the business is predominantly situated in the northern and western region of India.

#### TECHNOLOGICAL OBSOLESCENCE

While the company claims of having a strong R&D unit to foster innovation, technological obsolescence is common in this industry.

Moreover, matching the scale of other foreign counterparts (especially from China) is a daunting task for smaller Indian players like Jasch.

#### FOREX RISK

The operating margin is susceptible to volatility in INR/USD exchange rate as Jasch is a net importer. While around 50% of the total raw material requirement is imported, only 15-20% of the revenue from the industrial gauge unit is from exports.

