

Game Changer

Jash Engineering Ltd.

Exceptional Company + Visionary Management

Date: 22nd March, 2021 (CMP = 272)



Contents

1. Snapshot
2. The Art of picking Wonderful Companies
3. Company Overview
4. Journey so far..
5. Investment Thesis
 - A. Huge Potential for Growth
 - B. Driving value through Acquisitions
 - C. Global Reach
6. Subsidiaries
7. Growth Drivers
8. Competition
9. Clientele
10. Financial and Business Analysis
11. Leadership
12. Risks and Concerns
13. Future Outlook
14. Statutory Disclosure

Snapshot

- **Total Weightage % in Portfolio = 6%**
- **Single Phase Buying Strategy = Buy 6% between Rs 270-310**
- **Price Target = Around Rs 750-800 (~200% Upside) in next 12-18 months. Expect Earning Growth of 25% YoY + PE-rerating too; 30-35% CAGR over next 3-5 years.**
- Jash Engineering Ltd., founded in 1973, is a company operating in the industrial consumables sector. **The company is currently a market leader in India with over 6 decades of exemplary design and manufacturing experience and also exports its products to over 45 countries worldwide.**



Jash at WEFTEC-2019, Chicago, USA

Jash at WEFTEC-2014, USA



Market Cap: INR 330 Cr.

Current Price: INR 272

52 weeks H/L: 307/91.6

ROE: 17.1%

Stock P/E: 19.7

Dividend Yield: 0.32%

ROCE: 19.4%

Debt to Equity: 0.62

Dividend Payout: 14.10%

Face Value: 10

Promoter Holding: 53.8%

Pledged Percentage: 3.4%

Sales Growth (3Y): 21%

Profit Growth (3Y): 27%

Cash Conversion Cycle: 227

Source: Screener.in, As on Mar 22nd, 2021

The Art of picking Wonderful Companies

Dear Investors,

As Warren Buffett said "If the Business Does Well, the Stock Eventually Follows"

In other words, if a company has a consistent operating history, is generating high and sustainable profit margins and it's share price is trading below expectations for its future growth, then it's a stock you may want to own.

Companies with the above parameters have the highest probability of providing with a strong return on investment while at the same simultaneously removing downside risk. These are businesses that you know are going to be around after this crisis is over.

Secondly, businesses that generate recurring revenues by targeting a large market with perpetual demand have tremendous potential, apparently any particular stock is bought taking into account the industry in which the business operates, the extent of competitive advantage and the future potential for its goods.

Covid-19 has proven to be a blessing in disguise for some of the industries and sectors, and with the growing emphasis on health and sanitation, which can become a way of life for everyone even after the pandemic is over, the waste water treatment industry has the potential to be a multi-billion industry in the future.

Our latest recommendation is one such company from the industrial equipments sector. The company emphasizes on technological innovations and product improvements to suit market requirements. In addition to this, constant development in products with a view to offer more value for money to the customers has been a core principle of the company.

When we dig deeper we understood that the management have been taking steps to de-risk their concentrated business. **Over the past years, the management has taken strategic decisions to diversify its revenue streams, both in terms of products and geography.**

Companies that embrace technology and innovation and have a visionary view of the future would be most valued in the future.

2 underlying trends we should look for in a business?

To find a multi-bagger stock, two underlying trends we should look for in a business?

Firstly, we'll want to see a proven return on capital employed (ROCE) that is increasing.

Secondly, an expanding base of capital employed.

If you see this, it typically means it's a company with a great business model and plenty of profitable reinvestment opportunities.

So, **Jash Engineering ROCE has increased substantially over the last five years to 26%. The amount of capital employed has increased too, by 72%.** This can indicate that there's plenty of opportunities to invest capital internally and at ever higher rates, a combination that's common among multi-baggers.

A company that is growing its returns on capital and can consistently reinvest in itself is a highly sought after trait, and that's what Jash Engineering has.

JASH's earnings have grown significantly by 21.5% per year over the past 5 years.



Company Overview

Established in 1973, Jash Engineering Limited is headquartered in Indore, India. Jash Engineering Limited is a subsidiary company of Jash group, which was founded by Mr. Jashbhai Patel. The company produces, trades and sells various engineering products in India for general engineering industries, water and waste water industries, power plants, and bulk solids handling industries.

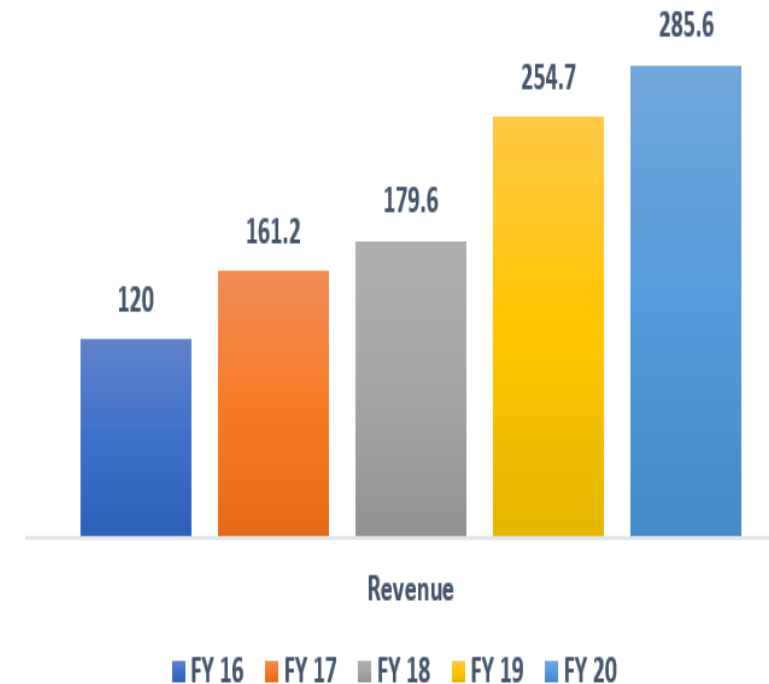
Jash Engineering Ltd is a leading company in India in the field of Water Control Gates, Screening Equipment, Water Hammer Control Solutions and Bulk Solid Handling Valves. Jash has 5 manufacturing plants in India with a total of 375,000 Sq. feet area.

Jash has 5 wholly owned subsidiaries and employs over 800 people. The company’s mission is to be the market leader in India across its product range. **It also has set an ambitious target of reaching 500 cr. in revenue by 2023-24 through expansion and acquisitions.**

The company got listed on NSE in the year 2017 and thereafter in 2018, it established a manufacturing facility at Massachusetts, USA. This was followed by establishment of another manufacturing facility at Dhar, MP, India in 2019 and **recently in the year 2020, the company has entered into a technical collaboration with Invent Umwelt- & Verfahrenstechnik AG, Germany for manufacturing of Disc Filters.**

Jash has all the facilities available, such as pattern making, foundry, machining, manufacturing, inspection, and in-house testing for its products.

Revenue (in INR Crores)



 5 Manufacturing Units	 ~800 Employees	 45+ Countries Global Exports	 350+ Years of Cumulative Experience	 ₹ 278 Cr. Consolidated sales Year 2019-20
------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------

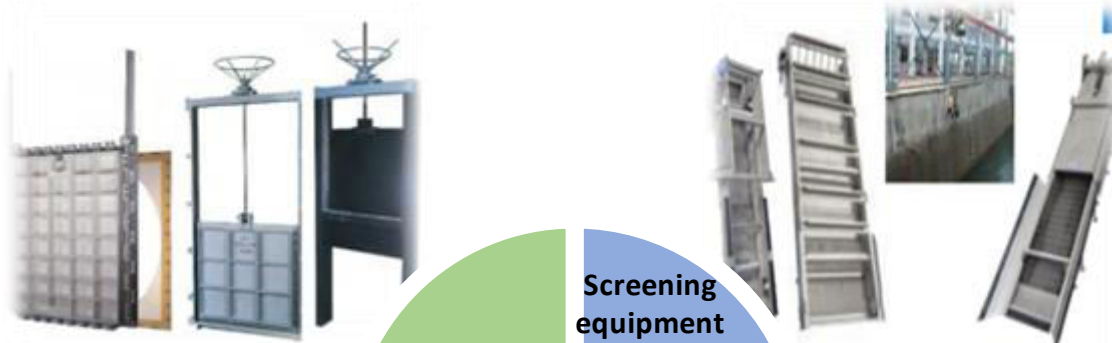
Source: Company Disclosures

Product offerings

Jash produces over 50 different products, however the major segments in which the products can be divided are as follows:

Water control gates

They are used in controlling the flow of water & waste water in pumping stations treatment plants, intake structures, distribution channels, reservoirs, etc. **The company is among the first 5 in the world in water controls gates business.**

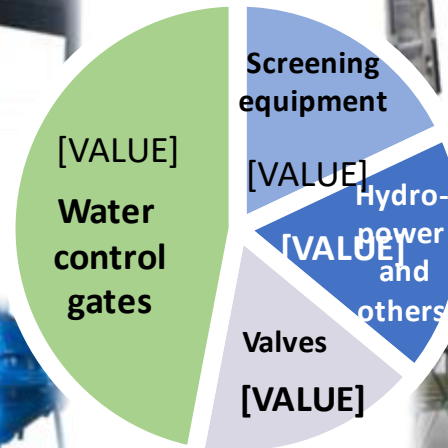


Screening equipment

The company produces various types of screening equipments such as Trash rack screens, travelling band, hyperbole static screens which prevent fine sized wastage material hence are used in various waste water treatment plants.

Valves

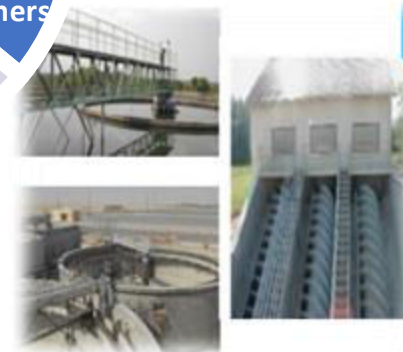
The company manufactures a variety of valves which are used for Underground Installation, Chamber Installation and Sewage and water systems. Jash also manufactures various knife gate valves which are also used in solid-liquid mixes.



Revenue contribution

Hydropower pumping and others

These are used for power generation by utilizing flow of water with available head/fall. Apart from this, various detritors, clarifiers and trickling filters are manufactured by the company.



Source: Company Disclosures

Product Usage

Human waste water cycle (60-70% of total turnover)

- Before it is released back into the environment, much of the water used by households, factories, and corporations must be treated. In other words, waste water treatment is sewage treatment. Nature has an incredible capacity to deal with small quantities of water waste and contamination, but if billions of gallons of wastewater and wastewater generated every day are not processed before releasing it back to the atmosphere, it would adversely affect the environment and human health. **Treatment plants decrease waste water contaminants to a degree that cannot be treated by nature.**
-

Industrial usage (10-20 % of total turnover)

- The world population has doubled since 1950, and the consumption of water has increased six-fold which has also increased industrial consumption rapidly. **Industrial waste water, especially from chemical and pharmaceutical manufacturing, often contains substances that need to be treated before they are released to the biological treatment plant and subsequent bodies of water.**
-

Storm water cycle (5-10 % of total turnover)

- Wastewater also contains runoff from storms. **While it is generally believed that after a storm, the rain that runs down the street is reasonably clean, it is not.** The rivers and lakes can be affected by toxic substances that wash off sidewalks, parking lots, and rooftops.
-

Human drinking water cycle (10-15 % of total turnover)

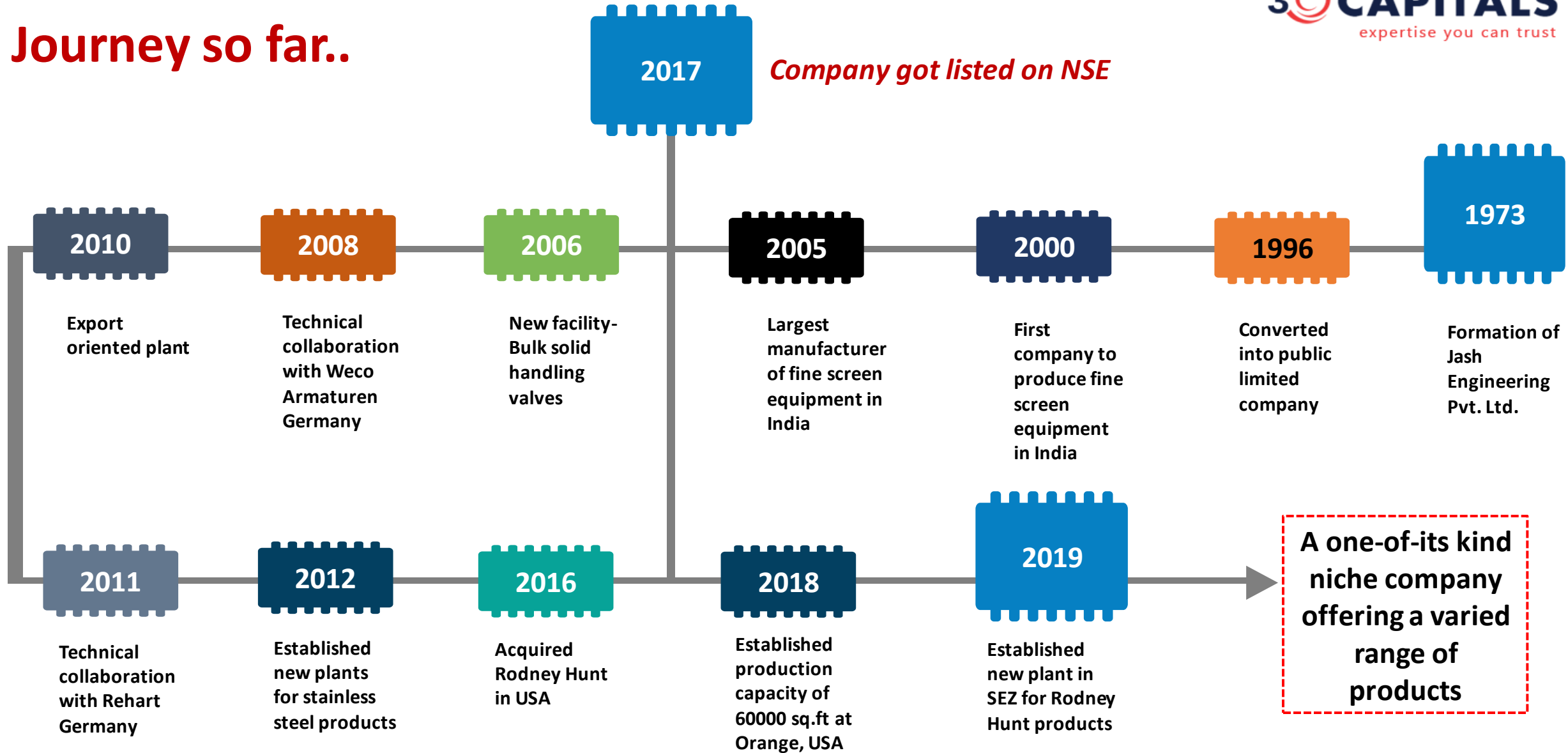
- The water system brings the waste water to the city's wastewater treatment facility, where it is treated. As freshwater sources are small, the demand for drinking water treatment technologies is increasing and oceans are tapped to meet demands of the world population and an improved standard of living in the modern world.
-

Renewable energy generation (5-10 % of total turnover)

- The improvement in **sewage treatment technologies** has been pivotal for many reasons: including preventing pollution, usage in irrigation and now it's beneficial effects are being used in renewable energy generation.

Source: Company Disclosures

Journey so far..



Source: Company Disclosures

Investment Thesis

Water security poses a significant challenge as India and the rest of the world are combating the terrible coronavirus. The importance of efficient storage and disposal of water and waste water can not be stressed enough. For a country like India, where over 163 million people do not have access to clean drinking water, this is extremely important. In addition, only 50 percent of households use adequate sanitation equipment. With that said, because of the increased awareness of hygiene, water consumption is comparatively high. More and more individuals are now thinking about washing their hands about 5-7 times a day. Because of this, the intake of water has risen 1.5 times, and this will now become a way for life for the generations to come.

Besides this, Deloitte reports that India's rural sanitation sector is worth 25 billion US dollars.

In addition, the operations at present related to water and waste water have not yet met the necessary capacity. In India, 21% of infectious diseases are linked with polluted water and the lack of hygiene practices. **As a result, a policy (Jal Shakti ministry) has been introduced by the Indian government to provide piped water connections to every household by 2024.** And, with a CAGR of 7.27 percent during the forecast period of 2019-2025, the water and wastewater application industry has emerged as the fastest growing market.

The investment thesis on Jash Engineering Ltd. is based on the following:

- **The company is making major investment in expanding its operations in all its manufacturing facilities, and has a potential to **grow 2x in size in the near future.****
- With its recent acquisitions, Jash Engineering stands **to benefit from being a multiple product, heavy equipments manufacturer with focus on high margin products while still being the leader in water control gates business.** The company has been able to insulate itself from the slowdown in the domestic infrastructure sector due to its exposure to global markets and clients.
- **Jash has presence in 45 countries worldwide and is a dominant player in most of these countries. Jash is aiming to be the world's leading company in the waste water treatment industry.**

A. Huge Potential for growth / A niche company

The company is a market leader in India for most of the products that it manufactures and is also among the best 5 in the world in the Water control gates business. Over 50% of company business comes from sales outside India and the company aims to increase this to nearly 65% in the foreseeable future.



The company is making significant investments in expanding SEZ, Unit 3. **In Phase 1, the built-up area of the facility is being increased by approximately 10,000 sq feet to install large machines from the Rodney Hunt plant in the USA.** The SEZ Unit 3 will be able to share the machining load for CI gates and valves for the export market with the completion of Phase 1 thereby freeing up capacity for the domestic market in Unit 1. This entire investment will be in the range of Rs. 750-800 lacs (Rs. 75-80 million) and will be financed through loans.

~80%
Indian Market Share in Water control gates market





The company has a policy of adding new products every year with a view to improve its product portfolio and maintain its leadership position in India. In the current year the company is planning addition and development of Disc Filters, Back Raking screen, Cable operated raking screen, etc.

Upon completion of Phase 1 expansion in SEZ Unit 3, the Phase 2 expansion of SEZ Unit 3 is planned to be taken up. In addition to this major investment in SEZ Unit 3 various other minor investments in plant, machinery and facilities are being done in Unit 1, Unit 2 and Unit 4.

Source: Company Disclosures

B. Driving Value through Acquisitions

Since Jash Engineering provides a one stop solution under one roof, including Design, Casting, Manufacturing, Assembly & Testing, and offers the most varied range of these products in the largest possible sizes, **the company continues to invest in its manufacturing capabilities as well as in the production of new products and innovations, either on its own or through technical collaborations and acquisitions.** The acquisition method enables the organization, through organic and inorganic expansion, to meet market demands.

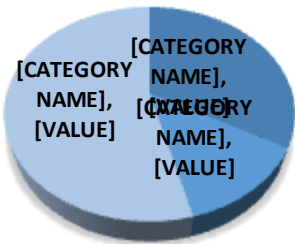
<p>Sureseal, India FY 20 Revenue INR 7 cr. Acquired at INR 1 cr.</p>		<p>Sureseal was acquired in the year 2009 to add niche water hammer control products to the water conveyance cycle where the company had no presence in India.</p>
<p>Shivpad Engineers Pvt. Ltd, India (FY-20 revenue ₹ 31.2 Cr.) (Acquired at ₹ 6 Cr.)</p>		<p>Shivpad Engineers Pvt. Ltd. India was acquired in 2011 to add equipment for treatment processes and increase the package size of items provided for a specific project.</p>
<p>Mahr Maschinenbau GmbH, Austria FY-20 revenue ₹ 10.46 Cr. Acquired at Euro 2 million</p>		<p>Mahr Maschinenbau was acquired in the year 2014 to add world-renowned screening technologies and brand to help drive gates and screens as a package so that they can be leveraged in the export market.</p>
<p>Rodney Hunt Inc., USA FY-20 revenue ₹ 82.0 Cr. Acquired at US\$ 4 million</p>		<p>Rodney Hunt was acquired in the year 2016 to introduce a world-renowned brand and gain access to water control gates in the North American market and to assist in selling screens & knife gate valves, add top representatives in each state.</p>

Source: Company Disclosures

C. Global Reach

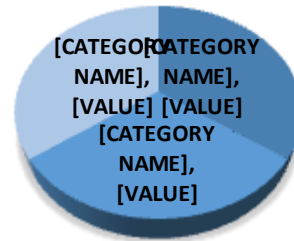
REVENUE BREAKUP GEOGRAPHY WISE

Present market spread



■ USA ■ Rest of world ■ Domestic

Market spread by 2022-2023

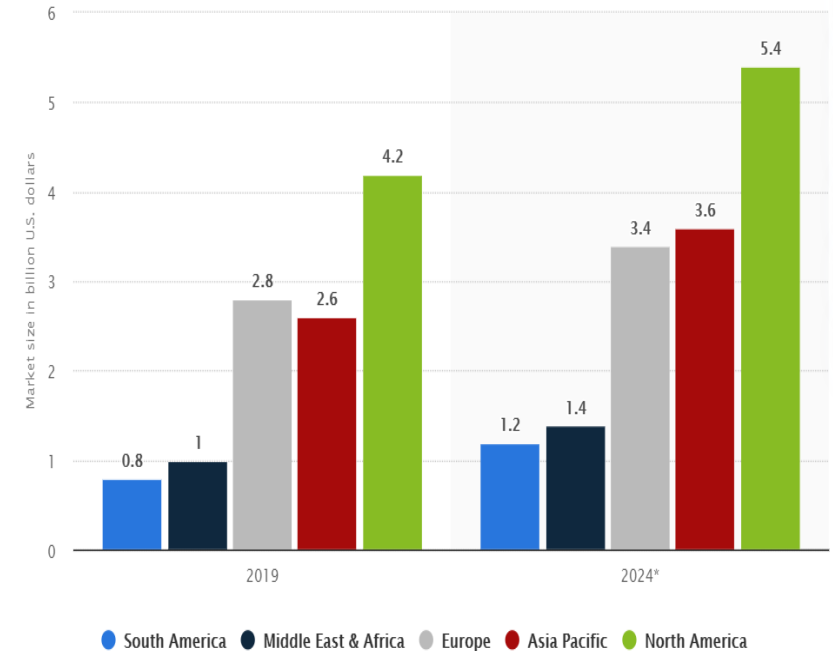


■ USA ■ Rest of world ■ Domestic

In 2017 the company decided to pursue an export led growth strategy and reduce dependence on Indian market by increasing exports from 20% to 65% by FY 23. In FY 20 exports was nearly 46% of total business and reaffirmed that the vision of improving the market spread was on course. Achieving the target of 65% exports by FY 23 will place the Company on a strong pedestal from a topline and profitability perspective.

Source: Statista

Market size of the industrial wastewater treatment industry worldwide by region (in billion U.S. dollars)

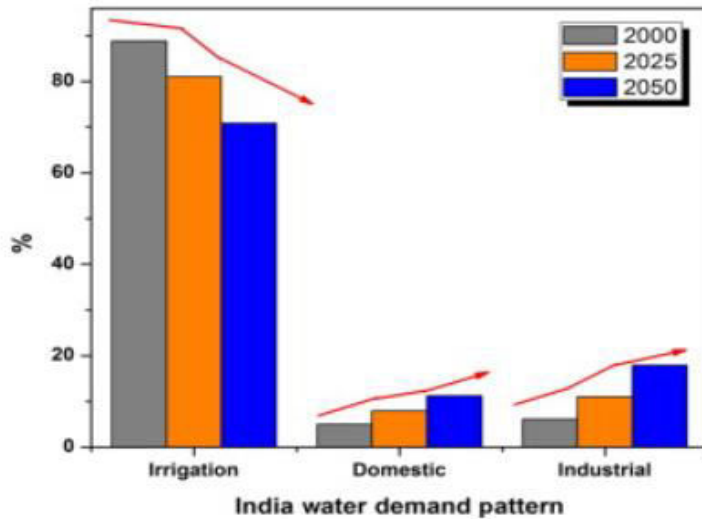


All figures in INR million

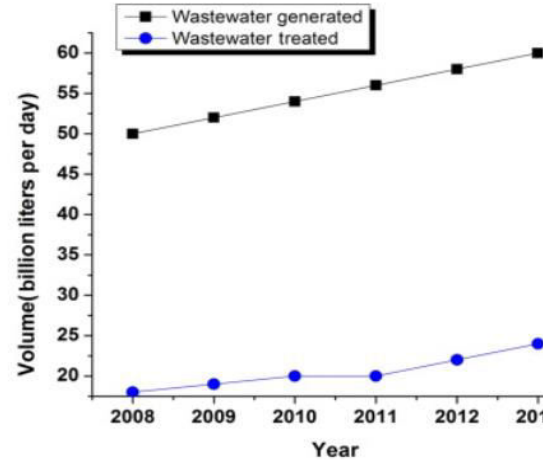


Source: Company Disclosures

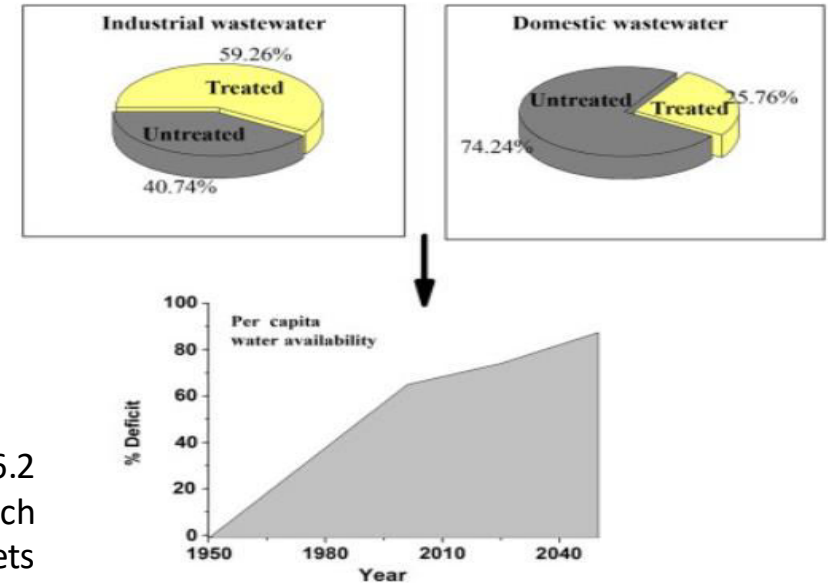
Market Potential



Since India is a developing country, its industrial development is rapid. **India is also an agriculture-based economy. Both these aspects require increased water consumption, and with increasing population, India is poised to become water stressed in the near future.**



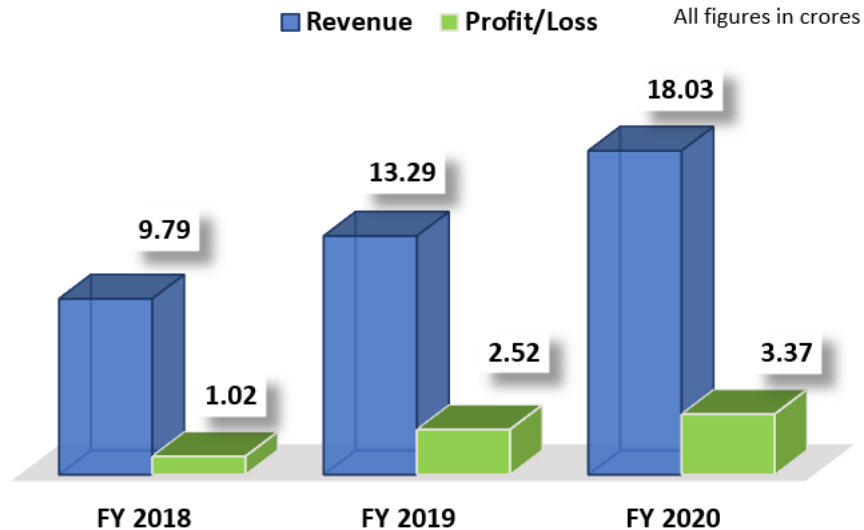
Every day, India produces approximately 6.2 million m³ of industrial waste water, which needs treatment to meet sustainability targets before discharge. **Recent evidence, shown in Figure 1.5 (CPCB, 2009-10; Frost and Sullivan, 2011, www.frost.com), reveals a large gap between the production of waste water and the treatment of waste water, demonstrating the need for better management of water.**



In India, nearly 6.2 million m³ of untreated industrial wastewater (of a total of ~ 44 million m³/day of wastewater) is produced daily. **It is claimed that only ~ 26 percent of domestic and ~ 60 percent of industrial waste water is treated in India.**

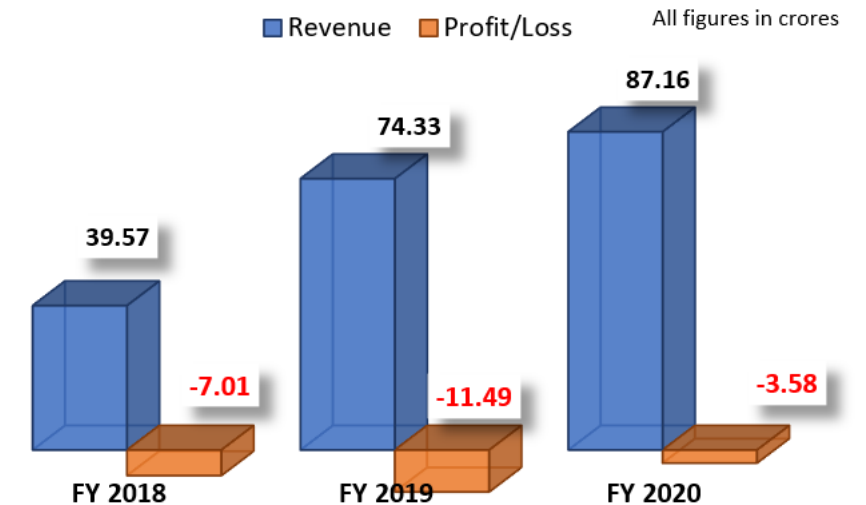
The major reason why Jash Engineering is looking to increase market share in other countries of the world, is because of the reduced spending by the government in heavy infrastructural projects in India, however as can be seen from the data above, there is still a lot of untapped potential in the waste water industry in the country and if this can be overturned, Jash has a potential to reach new heights.

Subsidiaries



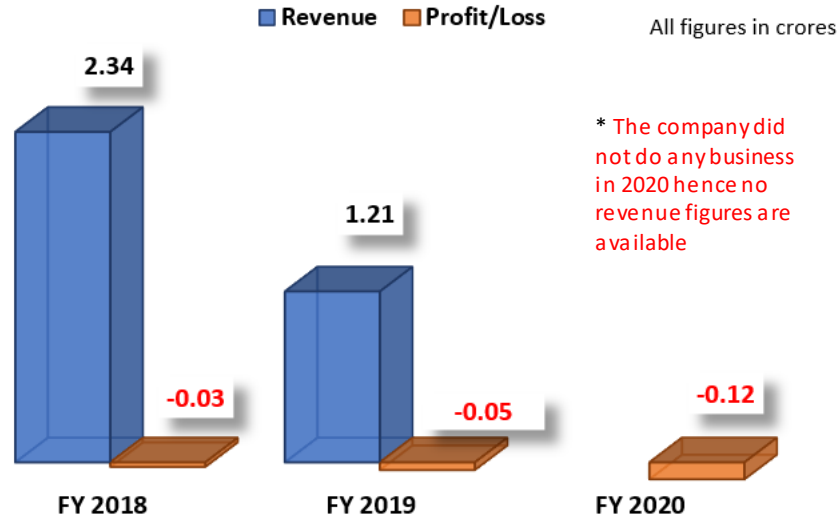
Shivpad Engineers Pvt. Ltd. is a wholly owned subsidiary of the Company, operating in Ambattur Industrial Estate, Tamilnadu, India. It is involved in the design, manufacture and supply of treatment process equipment for water treatment, waste water treatment and waste water treatment plants, as well as solid-liquid separation equipment for the chemical process industry, Milk of Lime preparation plant equipment, Multi-deck Clarifiers, Rake & Screw Classifiers and other ancillary firms.

Rodney Hunt Inc is a wholly-owned subsidiary of the Group, operating in Houston and its production facility in Orange, Massachusetts, USA. It produces a wide range of water control gates and facilities for water intake systems, pumping stations and treatment plants for water and waste water, pumping stations for storm water, water transmission lines and for various industries. This is the 3rd year post the acquisition of the company and 1st full year of the operation of its acquired production facility. **The decrease in loss is a good sign for the business that is on its way to being a profit-making business in the fourth year of its establishment.**



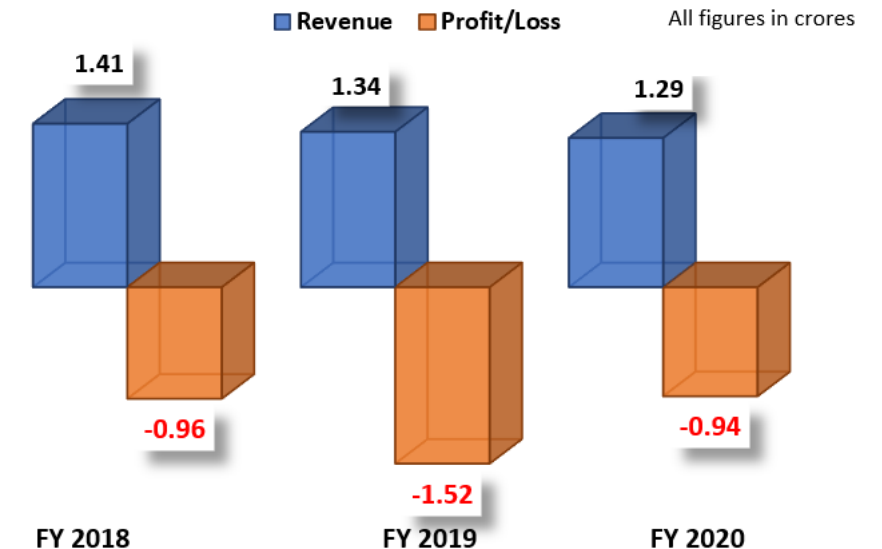
Source: 3C Research, Financial Statements

Subsidiaries (cont.)



Engineering & Manufacturing JASH Limited, operating in Tsimshatsui, Kowloon, Hong Kong, is a wholly owned marketing subsidiary of Jash Group. It is engaged in marketing of Screening and Screening conveying equipment manufactured under E&M Jash Brand, a well-established and approved brand with DSD, Hongkong. The company has no employees and its products are produced using Mahr Maschinenbau technology while manufacturing is done in Jash Engineering facility at SEZ Pithampur.

Mahr Maschinenbau is a wholly owned subsidiary of the Company operating in Hagenbrunn, Austria. It is now involved in development of new technology for Screening handling equipment and all its manufacturing activities have been closed down.



Growth Drivers

Urbanization



Increasing population, rapid urbanization and growing industrial activity in sectors such as food and beverages, chemicals, pulp and paper, pharmaceuticals, power, metal and mining, textiles, semiconductors, and oil and gas, have led to the installation of water and wastewater treatment equipments to ensure optimized usage of clean water during production process. **Demand for water for industrial purposes across the globe is increasing at a much faster pace as compared to available supply.**

Focus on public health and clean water



The World Bank estimates that 21 percent of communicable diseases in India are linked to unsafe water and the lack of hygiene practices. Due to the increasing prevalence of water borne diseases, attention towards water is gaining traction from citizens to policy makers given the rising concern on future availability as well as the deterioration in drinking water quality. Growing demand for clean and unpolluted water amid scarce availability has resulted in increased adoption of water and wastewater treatment equipment.

Stringent government policies



Policymakers across the world have formulated policies to enable an improvement in their infrastructural capacity to treat wastewater and encourage the reuse. Increasing usage of advanced and intelligent technologies in water and wastewater treatment is likely to aid the growth of the water and wastewater treatment equipment market. **New treatment norms mandated by NGT/MOE will necessitate huge investment in upgrade of old plants to meet revised norms.**

Source: Company Disclosures

Competition

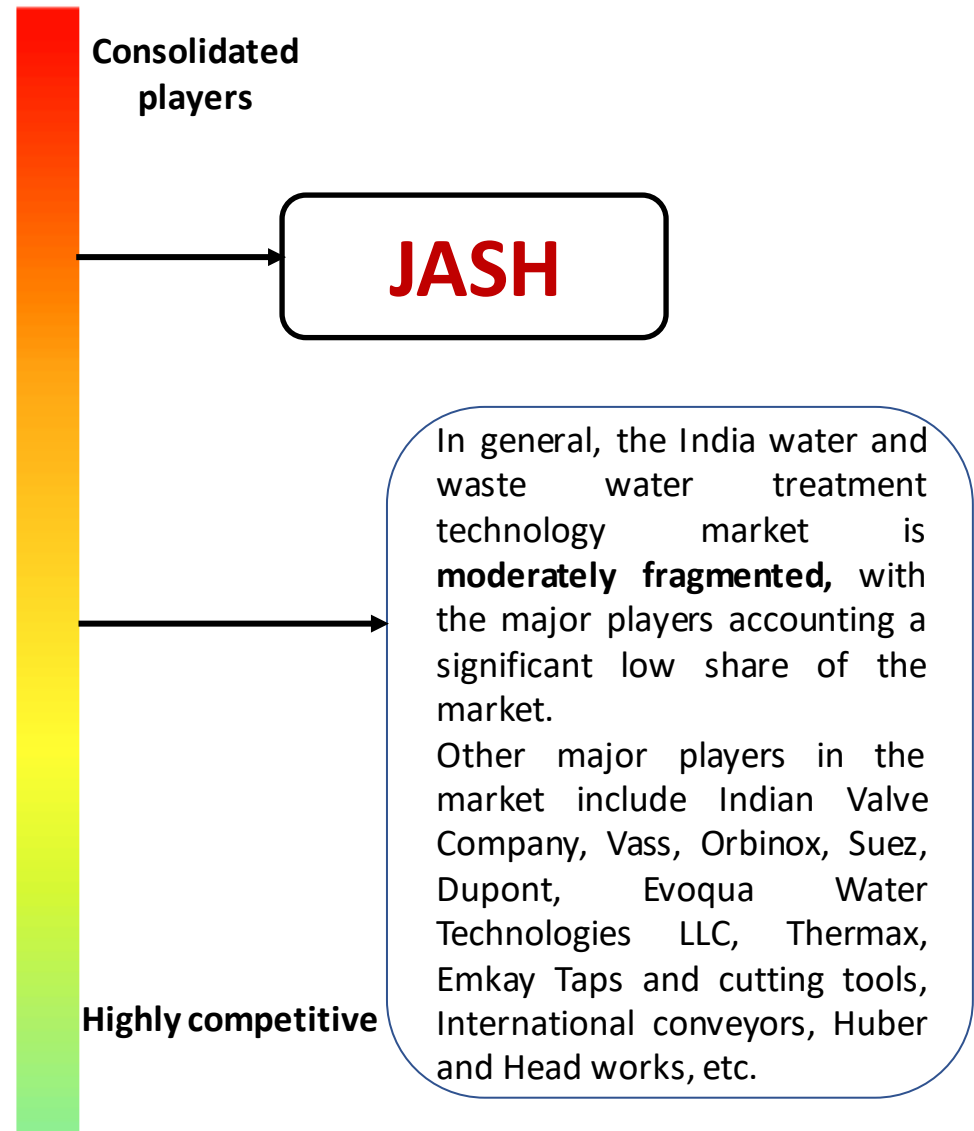
Jash is a company that operates in a very niche segment and offers a diversified range of goods that appeal to many sectors. The company’s products find application in various water intake systems, storm water pumping stations, waste and waste water treatment plans, irrigation systems, power plants, paper and pulp plants, petrochemical plants and steel plants.

Jash is a dominant player in India for most of its products and aspires to be the world’s leading supplier for its equipments.

Moreover, it is also a dominant player in various countries such as Hong Kong, Singapore, USA, Canada, Thailand, Malaysia, Kuwait, Bahrain, Sri Lanka, Oman and Katar.

From a vision to establish its position into Water control gates business to being a market leader (90 % market share in metropolitan cities) by 1993, to subsequently adding products by acquisitions and technical collaborations, it has come a long way. The dominant position raised to a very high awareness of Jash as a brand and to capitalise on this, it decided to diversify its product portfolio.

Similarly, by year 2005, Jash became the biggest mechanized screen manufacturing company in India and by year 2007 was manufacturing over 100 Fine and Coarse screens every year. This was possible by partnering with Holland Group of Norway in the year 2000. Subsequently, it partnered with a German based company to get expertise into Valves market.



Source: Company Disclosures

Clientele & Order book position



As on 1st March 2021, Order book position is 438 Cr, out of which 168 Cr order (38%) is for Indian market and 270 Cr order (62%) is for International market (125 Cr from USA & 145 Cr from rest of the world). Timeline for the execution of this order book is 12-15 months.

Consolidated Sales Outlook for FY 20-21



- Projected Sales for FY20-21 : Rs 305 Cr (Export = 150 Cr and Domestic = 155 Cr; Data Source Q3FY21 Company Presentation & Q3 Conf Call dated 11th Feb 2021).
- Revenue achieved from Q1 to Q3 FY21 = 170 Cr, it means they are likely to achieve revenue of around 135 Cr in the current quarter (Q4FY21)
- MGMT expects PAT margin of 12-15% in Q4FY21, it means PAT of 16-20 Cr in Q4FY21 Vs 10 Cr in Q3FY20.
- According to MGMT, maximum sales are booked in the last quarter of any financial year, **so Q4FY21 is going to be a blockbuster quarter with expected revenue up 53% QoQ and profit up 60-100% QoQ.**
- Q4FY21 EPS is going to be approx. 14-17 Vs EPS of 8.5 in Q4FY20; Full year EPS will be around 20-23. Strong financial growth even with a COVID19 impact that resulted in non-realization of 20 crores.
- **Based on estimated EPS of 20-23, stock is trading at a PE Of just 12-14 which is very attractive.**

Source: Investor Presentation

Some Facts & Figures

- **Market leader in India for most of its products** & among the best 5 in the world in the Water Control Gates (Others are Hydro Gate, Waterman, Paques, Ross Whips Gates); **Target is to become #1 or 2 in 3-4 years!**
- **Sales growth (3Yr) 21%; Profit growth (3Yr) 27%;** Consistent dividend paying company
- **Total turnover potential from existing facility Rs 500+ Cr Vs FY21 Expected Sales of 305 Cr.** Phase 1 expansion at SEZ nearly reached its end by May/June 2021. Phase 2 expansion has also started and should be over by November.
- Between 2013-20 : cPAT - ~62 crores Vs cCFO - ~79 crores. **It's clear that PAT is translated in CFO by the company.**
- They are slowly reducing dependence on the Indian Market and derive 60%+ revenue from International Markets (US, Singapore, RoW). **In the last 3 years export revenue jumped from 22% to 45%.**
- During 2018 Export / Domestic revenue was 22% / 78% while in 2020 Export/Domestic is 45% / 65% which shows **clear shift in export revenue which is higher in margin and fast payout.**
- Increasing Demand for Waste Water Management. **Govt. projects such as Namami Ganga, projects coming from Mumbai Municipal Corporation are tailwinds.**
- Key strategic advantages are - **Empaneled with municipal corporations, Product expertise & Strong order book (almost 1.5 years revenue visibility).**
- Mutual funds (e.g. **SUNDARAM MF holds 7%**, BLUE LOTUS CAPITAL ~ 3%, AVENDUS PHOENIX FUND), Individual investors (SHARMIN NASSER, ZAKI ABBAS NASSER, **NIKHIL VORA**) are holding stake in this company.

Some Facts & Figures (Contd.)

- **Strong Multi-geography based Supplier of Engineering Equipment** - The company is a strong multi-geography based supplier of engineering equipment related to waste water management, stormwater management, valves, Hydropower etc. Operates through subsidiaries as Shivpad, Rodney hunt, Mahr Maschinenbau and others to gain a foothold in US, European, Middle East and South East Asian markets.
- **5 Product Categories** - The company has presence in 5 product categories and is soon launching a 6th product category developed in collaboration with Invent AG (German). Jash is the only Indian manufacturer for all these product categories providing it with a knowledge leverage.
- **5 Wholly Owned Subsidiaries** - Jash has 5 wholly owned subsidiaries and employs over 800 people. It also has set an ambitious target of reaching 500 cr. in revenue by 2023-24 through expansion and acquisitions.
- **60 years old company with clean corporate governance** - In 1988, Mr. Pratik Patel (3rd generation of family), a Production Engineer with a MBA in Finance joins the business. In 1996, Jash Engineering entered into a Technical & Financial Collaboration with Schuette group, Germany. 20% equity given to Mr. Axel Schuette (present diluted holding ~ 6.5%), who joined the board as a director, hence corporate governance issues can be ruled out. Also they have a top reputed auditor.
- **Listed in 2017 @ 120/Share** - This company got listed in October 2017 through IPO (Price Band - 115-120 per share) on the NSE Emerge, October 2019 they moved to NSE main board. During 2012, Pragati India Fund invested \$5 mn in Jash Engineering, the purpose of listing in 2017 was to give exit to PE fund.
- **Empanelled with municipal corporations** - The company's products are approved by major municipal corporations, sewerage boards, consultants and large engineering, procurement and construction (EPC) companies in India and over 25 other countries such as the US, the UK, West Asia, Hong Kong, Singapore and Malaysia.
- **Focused on In-organic growth (acquisitions)** - Through a series of acquisitions and technical joint ventures, the company has created a strong revenue growth in the international market such as West Asia and the US and has transformed Jash into a global player in water control gates, screens and valves industry.
- **Rodney Hunt Inc Key Growth Driver** - When they acquired Rodney Hunt in 2017 their turnover was \$33 mn. Rodney Hunt is \$14-15 mn now (getting back to profitability) and they are projecting to take it over \$30-35 mn in 3-4 years' time.
- **Low debt & minor pledge** - Net consolidated debt of ~ 68 Cr (12 Cr long term debt and 55.5 is the working capital limit). Pledged shares (~3.4%) during Sep 2019 due to delivery commitment of Rodney Hunt Inc orders where they airlifted gates instead of shipment.

Financial & Business Analysis

	FY15	FY16	FY17	FY18	FY19	FY20
Consolidated Total Revenue (INR Cr.)	119.8	121.9	161.2	179.6	255.3	285.6
Consolidated Operating Profit (INR Cr.)	19.9	19.7	21	8.7	22.4	38
Operating Profit Margins (%)	16.61%	16.16%	13.02%	4.84%	8.77%	13.3%
Consolidated Net Profit (INR Cr.)	7.6	7.3	10.1	0.3	8.5	20.1
Net Profit Margins (%)	6.34%	5.99%	6.27%	0.16%	3.33%	7.04%

- On a consolidated basis the company's performance has been lagging due to its loss making subsidiaries and high capital expenditure incurred to fund expansion projects.
- With the improvement in performance of its subsidiaries, we expect the company's performance to improve going forward. We also expect that the contribution to overall sales from recently acquired subsidiaries such as Rodney Hunt will increase in the future.
- On a standalone basis, Jash has been able to achieve operating margins of around 18% during the last 5 years. The net margin has increased to more than 10% in the last 2 years, from around 7 % in FY 15, which is a positive sign.
- Cash flow from operations has also been positive in each of the last 5 years, except for the FY 18, which was due to reduced profitability.
- We expect the working capital requirements of the company to increase as it scales its business in existing and newer markets.
- While long term borrowings have been increasing over the years, debt to equity of the company is under 1.

Source: Company Disclosures

Capable, Committed, Conservative Management

The business was established in 1948 by Mr. Jashbhai Patel and later was run by second generation Mr. Navinchandra Patel. After having formed a private limited Company in the year 1973, it is currently being managed by Mr. Pratik Patel, Managing Director of the Company and Laxminandan Amin, Chairman and Managing Director of the Company who has an experience of more than 4 decades in the industry. This relevant experience has helped the Company to diversify the product portfolio along with technical collaborations with different partners for expanding the product base.

Vision

“To lead the industry and command respect for ourselves and our stakeholders through growth, innovation and customer focus”.



Mr. Pratik Patel is the Managing Director of the Company. He holds a bachelor's degree in engineering (Production Engineering) from Sardar Patel University and a degree in M.B.A. (Finance) from Devi Ahilaya Vishva Vidhyalaya, Indore. **He has an experience of 23 years in the marketing and designing of engineering products and his areas of expertise are Sales & Marketing. He has been instrumental in the growth of the company and has been a Director in the company since 22 years.**



Mr. Laxminandan Amin is one of the co-founder/Promoter and the Chairman and Managing Director of the Company. He holds a bachelor's degree in Mechanical engineering from Sardar Patel University, Vallabh Vidyanagar, Gujarat. **He is an Indian National and has been a Director since incorporation. He has the responsibility of managing the overall functions of the company. His deep experience, detailed skills and practices have accelerated the company's immense growth.**

Jash Engineering fulfils all the 8 criteria

We should pay a premium to any stock if the company can fulfil at least 2-3 criteria mentioned below. Fortunately Jash Engineering fulfils all the 8 criteria.

#1. Companies can reinvest at higher rates of capital employed - YES (JASH's ROCE has increased substantially over the last five years to 26%. The amount of capital employed has increased too, by 72%.* This can indicate that there's plenty of opportunities to invest capital internally and at ever higher rates, a combination that's common among multi-baggers.)

#2. Monopoly/Duopoly/Oligopolistic Industry Structure - YES (JASH is among the best 5 in the world in the Water Control Gates (Others are Hydro Gate, Waterman, Paques, Ross Whips Gates); Target is to become #1 or 2 in 3-4 years!)

#3. Supply side Excellence - YES (JASH has presence in 5 product categories and is soon launching a 6th product category, no other peer has so many products & supply excellence).

#4. Industry going through tailwinds - YES (Increasing demand of Waste Water Management is huge. Govt. projects such as Namami Ganga, projects coming from Mumbai Municipal Corporation are tailwinds. In the USA also demand picking up.)

#5. Regulatory Moat - YES (The company's products are approved by major municipal corporations, sewerage boards, consultants and large engineering, procurement and construction (EPC) companies in India and over 25 other countries such as the US, the UK, West Asia, Hong Kong, Singapore and Malaysia. New players can't get into this business easily.)

#6. Management Quality - YES (Almost 60 years old company run by 3rd generation promoter & his team are capable, committed, conservative/realistic & visionary; No Corporate Governance Issues)

#7. Technological Edge - YES (For every product they design/develop, they have JV with World's top technology company from Germany / Canada etc.)

#8. Exit of competitors - YES (In next 3-4 years out of top 5 players, a couple of players will not survive which will make the way clear for JASH to become #1 or #2 player.)

Risks & Concerns

- **High Overhead costs:** Competition and high overheads cost are a threat for Jash Engineering Ltd. **The increase of competition is inevitable as, owing to its high growth potential, international companies want to enter India.** The high cost of overhead is a concern because it leads to a rise in commodity prices, placing pressure on both revenue and margins. Routine upgradation of product technology and a higher growth rate will mitigate all of these risks.
- **Deterioration in the performance of the subsidiaries leading to weakening of business of the company:** Our investment thesis on Jash Engineering Ltd. is based entirely on its ability to grow its businesses across the world and its subsidiaries. Water control gates continues to be the major contributor to the company's total revenue, however the management has been vocal in its plans to diversify its business to other segments. **The recent acquisitions also underlines this vision of the management.** However, the recent acquisition of Rodney Hunt has delivered lower than expected business. Also the inability to identify all the risks, liabilities and challenges in relation to Rodney Hunt and implementation of new regulations and laws have had a negative impact on Rodney Hunt.
- **Slowdown in the infrastructure industry: The Indian infrastructure industry is limping due to cash flow crisis partially inflicted by banks and partially by delayed payment by executing agencies.** This can lead to projects getting stuck and deliveries getting delayed. Nearly 55% of the Jash's revenues are still coming from Indian business and so some part of the growth will be affected if higher percentage of Indian projects are affected by this crisis. The company is looking at overall year on year growth between 17% to 23% in next 3 years but if many Indian projects are affected then projected growth will come down to 14%-20% range.
- **Susceptibility of profitability to volatility in raw material prices:** The Company has not entered into any supply agreements for the major raw materials required for manufacturing of its products and is exposed to risks relating to fluctuations in commodity prices and shortage of raw material.
- **Risk of foreign exchange rate fluctuations:** The company incurs expenses in foreign currencies during the normal course of business. Such expenses are incurred in supplying products from to the global clients at prices which are mutually agreed upon however it is subject to various foreign exchange rate fluctuations.

Future Outlook

- India is the world's 2nd largest user of water. To serve its population, the country needs about 740 billion cubic meters of water per year. In addition, it is anticipated that water demand will exceed supply within the next 20-25 years. This, in turn, provides the water and wastewater treatment industry with good growth prospects.
- Moreover, the market for international, advanced water treatment technologies in the sector is immense. The prospects for investment in the water sector are expected to increase to \$130 billion by 2030.
- **Further, going by the UN World Water Development Report, water sanitation can be a fruitful business at the moment. They suggest a high return on investment in the water and wastewater treatment industry.**
- **Growing focus on sewage treatment in countries like the U.S., China, and India, and stringent governmental regulations on treating wastewater provide significant opportunities to leading established players.**
- The ambitious Swachh Bharat Abhiyan (Clean Indian Initiative) announced in October 2014 would play a major role in shaping regulatory climate in waste water management sector. In addition, government plans to develop 100 smart cities by 2022 which would include developing the waste water management sector.
- **Jash Engineering is a unique MSE company with a highly diversified product portfolio and a large geographical footprint, operating in a very niche market. It is also one of the MSE companies which has a foreign subsidiary and is a dividend-paying company.** The company has been able to reduce its client concentration over the years through addition of new clients and geographies. The management's plan is aim to have atleast product groups each having contribution of 15-30% in the annual turnover in the next 5 years and looking at positive revenue growth of around 20-25% in international business, the company plans to expand its share of revenues from exports.
- **They are slowly reducing dependence on the Indian Market and derive 60%+ revenue from International Markets (US, Singapore, RoW). In the last 3 years export revenue jumped from 22% to 45% which shows clear shift in export revenue which is higher in margin and fast payout.**

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, the analyst have no position in the stock covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.