

Press Release

Jay Jagdamba Forgings Pvt Ltd (JJFPL)

March 24, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Facilities (Fund Based – CC)	10.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)
2	Term Loan (o/s)	10.72	
3	Short Term Facilities (Non-Fund Based –LC)	0.25	IVR A2 (IVR A Two)
	Total	20.97	

Details of facilities are in Annexure 1

Rating Rationale

The assigned rating derives strength from the extensive experience of promoters in stainless steel industry and the growing operating income with reputed clientele. The rating however is constrained by moderately leveraged capital structure, working capital intensive operations and the general slowdown in the country.

Key Rating Sensitivities

➤ **Upward Factors –**

- Continuing its operating growth and margins would be crucial for the company to improve its liquidity position
- Significant improvement in debt protection matrix

➤ **Downward Factors –**

- Any deviation from the projected top-line and margins would put a stress on financial profile of the company and call for a negative rating action.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Promoters With Extensive Experience In Stainless Steel Industry

JJ group is being led by Mr. Ram Prakash Maplani & Mr. Narayan Prasad Malpani both having extensive experience of 20+ and 30+ years resp. in stainless steel industry. The daily operations at group is being managed by Mr. Mahesh Kumar Biyani having 25+ years of experience in the domain. The company stands to benefit in terms of managing its operations and retaining and nurturing its relationships with important clients from this vast experience of its promoters, who are also supported by a team of qualified and experienced management team.

Growing Operating Income

The installed capacity utilization in all the three units - Melting, Rolling Mills & Bright Bars have steadily increased in past years, on account of which the group has been able to maintain its top-line growth at a healthy CAGR. Diversifying its product portfolio by gradual forward integration has helped the group to maintain its sales growth at ~30% for the past two years.

Key Rating Weaknesses

Moderately Leveraged Capital Structure

As a part of its on-going capital expenditure funded by debt, the company debt has increased in past two years by around Rs ~200 crore resulting in moderately stretched capital structure. The gearing ratio, although improved marginally in FY19 with the infused equity, stood at 2.02x while TOL/TNW was at 2.83x. The structure would continue to remain stretched if there is any negative deviation from the targeted accruals in the upcoming years.

Working Capital Intensive Operations

The average collection period for JJ group was around ~128 days and average inventory days stood at ~144 in FY19. This implies working capital intensive operations where much of the company cash is locked up in inventory and with the customers. On average, the company takes around 79 days to pay its suppliers and thus the cash conversion cycle for the company was at a high of 193 days in FY19.

General Slowdown In Steel Demand In Country & Globally

A slowdown in India's steel demand resulting from the downturn in automotive and real estate industries has seen several companies cutting back on their production. Rising raw material prices and unavailability of credit are aggravating the problem. As on December, 2019, JIL's domestic order book stood at Rs. 45.17 crore.

While the global economic outlook is highly unpredictable, as per the recent report on Short Range Outlook (SRO) released by the World Steel Association, the global steel demand is expected to increase by 1.7% in FY20 with a significant downside risks if the current level of uncertainty prevails. As on December 2019, JIL's order book stood at Rs 233.01 crore.

Analytical Approach & Applicable Criteria:

- Consolidated*
- Rating methodology for Manufacturing companies
- Financial ratios and Interpretation (Non-Financial Sector)

**We have taken consolidated approach of evaluation by combining the financial results of JIL, Shree Jay Jagdamba Flanges Pvt Ltd (SJFPL), Jay Jagdamba Profile Pvt Ltd (JJPL) and Jay Jagdamba Forgings Pvt Ltd (JFPL) collectively referred to as the Jay Jagdamba group, as the companies are in same line of business having common management and other operational linkages.*

Liquidity: Adequate

The current liquidity position of the company appears to be adequate. The total working capital limits at group level are being used at ~94% level. The liquid cash with the group along with the gross cash accruals for FY19 has decreased in FY19. Current ratio in FY19 stood at 1.12x owing to the high inventory while quick ratio was below unity at 0.5x. Liquidity position would deteriorate if the company fails to achieve its projected sales and in turn profitability, going forward.

About the group

JIL is a public company domiciled in India. Incorporated in January 2004, the company is into manufacturing of stainless steel and allied products like - alloy steel, billets, ingots, hot rolled steel, bright round, angle bars & flanges etc. The manufacturing facility is at Wada in Maharashtra.

JJFPL - is a group company which is into manufacturing of SS forgings.

JJPPL - a subsidiary of JJL, JJPPL was incorporated in 2006 (earlier MG Multitrade Pvt Ltd)

The company has a plant at Wada to manufacture SS angles, flat bars, and channels.

SJJFPL - incorporated in 2014, is into manufacturing of stainless steel flanges with its plant at Wada.

Financials (Consolidated)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Income	719.80	784.97
EBITDA	92.34	105.84
PAT	29.19	35.60
Total Debt	482.46	488.83
Tangible Net worth	200.72	256.40
EBIDTA Margin (%)	12.83	13.48
PAT Margin (%)	3.71	4.39
Overall Gearing ratio (x)	2.41	1.96

* Classification as per Infomerics' standards

Any other information: N.A

No Cooperation status with previous CRA: NIL

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term	10.00	IVR BBB + /Stable Outlook	--	--	--
Term Loan	Long Term	10.72		--	--	--
Non Fund Based Facilities	Short Term	0.25	IVR A2	--	--	--
	Total	20.97				

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	--	10.00	IVR BBB+/Stable Outlook
2	Term Loan	--	--	--	10.72	
3	Short Term Non Fund Based (LC)	--	--	--	0.25	IVR A2
Total					20.97	