

Press Release

Jay Bharat Steel Corporation

July 06, 2020

Rating

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	18.17	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Total	18.17 (Eighteen crore and Seventeen lacs)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Jay Bharat Steel Corporation (JBSC) derives comfort from long presence of mono group in steel industry, administrative synergies with mono steel and undertaking support from Mono Steel India Limited (MSIL) to meet the shortfall in debt obligations, regular infusion of funds and moderate dependency on working capital marked by comfortable operating cycle. These rating strengths are partially offset by cyclical nature in the steel industry, moderation in profitability, vulnerability to forex exchange rate and partnership nature of constitution.

Key Rating Sensitivities

Upward factors

- Turnaround in operating performance with significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.
- Improvement in the capital structure

Downward factors

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- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario, deterioration in operating cycle and overall gearing could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long presence of Mono group in steel industry

Jay Bharat Steel Corporation is a part of the Mono group, engaged in the steel business since 1992. Mono Steel India Limited (rated IVR A- as on Dec 31, 2019) is the flagship company of Mono group, company is promoters by Mr. Bhupatbhai Shah and other family members. JBSC is promoted by Mr. Gaurang Bhupatbhai Shah and Mr. Tejas Jaisukhlal Shah. Mr. Gaurang Bhupatbhai Shah (s/o of Mr. Bhupatbhai Shah) holds experience of over 10 years and Mr. Tejas Jaisukhlal shah holds the experience of over 12 years.

Administrative synergies with Mono steel and undertaking support from MSIL to meet the shortfall in debt obligations

JBSC is promoted by second generation of MSIL promoters – Mr. Guranag Bhupatbhai Shah s/o Mr. Bhupatbhai Shah (MSIL Promoter) and Mr. Tejas Jaisukhlal Shah s/o Mr. Jaisukhlal Shah (MSIL Promoter). JBSC facility shares the wall with the MSIL facility and is administered under the guidance of both generations. Further, MSIL has also provided the shortfall undertaking to provide the funds through unsecured loans or through means suggested by bank to meet the financial obligations towards the rated facilities.

Regular infusion of funds

Promoters have regularly infused funds through unsecured loans over past two years to support the capex and other business requirement. Promoters have infused around Rs. 25 crores over last two years indicating the intent to support the business as and when required.

Moderate dependency on working capital marked by comfortable operating cycle

JBSC has reported efficient working capital management reflected in negative operating cycle of 19 days as on March 31 ,2019. JBSC receives credit period of 30 days from creditors due to well

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established relationship with suppliers. However, collection period was maintained low at 7 days as on March 31, 2019. Further, JBSC maintains low inventory for near term requirements due to high volatility in steel prices. On account of efficient management working capital limits remained unutilized for past 12 months ended at Feb,2020 indicating buffer capacity to support incremental working capital requirement.

Key Weaknesses

Cyclical in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including LSL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the firm's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Moderation in profitability

JBSC PAT margins fell from 3.23% in FY18 to 0.19% in FY19 from. Fall in margins primarily led by one-time exceptional expense incurred by the firm due to high exchange rate fluctuation in FY19 leading to interest charges of around Rs. 9.00 crore under usance LC facility used for import of raw materials. However, JBSC has generated healthy gross cash accruals over last 2 years against moderate debt obligations.

Vulnerability to forex exchange rate

JBSC procures around 15%-20% of its raw material from overseas which is about Rs. 108.00 crore for FY19. On the other hand, the firm generates revenue from exports of around of Rs. 20.00 crore. JBSC follows natural hedging policy to cover the forex risk leading to exposure of profits margins to foreign currency fluctuation risk. Company has indicated that unhedged exposure remains nil as on March 31, 2020.

Partnership nature of constitution

Being a partnership firm, JBSC is exposed to inherent risk of withdrawal of capital and less regulatory compliances.

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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Sector

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the JBSC seems adequate marked by sufficient gross cash accruals and moderate debt obligations. Further, unutilized bank working capital limits imparts comforts towards efficient working capital management through internal resources and indicates sufficient cushion to support the incremental working capital requirements.

About the Company

Incorporated in year 2012, Jay Bharat Steel Corporation (JBSC) is a partnership firm, based out of Gandhidham, Gujarat. JBSC is engaged in manufacturing of MS billets having plant capacity to manufacture 400000 MT year of MS billets. JBSC is promoted by Mr. Tejas Jaysukh lal shah and Mr. Gaurang Bhupatbhai Shah.

JBSC is part of a Mono group with Mono Steel India Limited as the flagship company of the group. MSIL incorporated in 1992, Gujarat based Mono Steel India Limited (MSIL) is engaged in manufacturing of sponge iron, billets and TMT bars.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	584.54	797.02
EBITDA	26.25	11.79
PAT	18.90	1.54
Total Debt	18.10	40.28
Tangible Net worth	6.52	6.63
EBITDA Margin (%)	4.49	1.48

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For the year ended*	31-03-2018	31-03-2019
PAT Margin (%)	3.23	0.19
Overall Gearing Ratio (x)	0.68	1.10

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	2.00	IVR BBB-/ Stable	-	-	-
2.	Term loan	Long Term	16.17	IVR BBB-/ Stable	-	-	-

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:

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trusted & credible rating agency in the country and is gradually widening its product portfolio. 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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	2.00	IVR BBB-/ Stable
Long Term Bank Facilities- Term loan	-	-	March, 2025	16.17	IVR BBB-/ Stable