Press Release

Jai Hanuman Udyog Limited

March 24, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	32.75	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Total	**32.75**	**(Rupees Thirty-two crore and seventy-five lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Jai Hanuman Udyog Limited (JHUL) draws comfort from its extensive experience of promoters in steel industry along with improving scale of operations, moderate debt coverage indicators and strategic location of plant. However, these rating strengths are partially offset by decline in profitability margins, leveraged capital structure, susceptibility of operating margin to volatility in raw material prices and finished goods with intense competition and limited pricing flexibility in steel industry, cyclicality in steel industry and supplier concentration risk.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of promoters in steel industry

Mr. Deepak Agrawal, master's in chemical engineering has over 19 years of experience in the same line of business. He looks after overall functions of the business. Further, Mr. Sameer Agrawal, master's in business administration has an overall experience of 15 years in the same line of business. He assists Mr. Deepak Agrawal in the business.

Improving scale of operations albeit decline in profitability margins

The company has registered a significant growth in the Total Operating Income (TOI) by 40% and reported TOI of Rs. 134.11 crore in FY22 against Rs. 99.10 crore in FY21 on account of increase in sales realization of sponge iron whereas sales volume remained stagnant. The EBITDA of the company stood at Rs. 9.36 crore in FY22, declined from Rs. 11.04 crore in FY21 mainly on account of higher raw material consumption cost. In FY22, EBITDA margin stood at 6.98%, declined by 416 bps from 11.14% in FY21. Further with decline in EBITDA margin, the PAT margin also declined by 697 bps and stood at 2.44% in FY22 against 9.41% in FY21. The PAT of the company stood at Rs. 3.27 crore in FY22 against Rs.9.33 crore in FY21. The GCA stood at Rs. 4.98 crore in FY22 against Rs 9.72 crore in FY21. Further, the company has reported PAT of Rs. 1.05 crore on total operating income of Rs.109.90 crore in 9MFY23 as against PAT of Rs.3.86 crore on total operating income of Rs.102.71 crore in 9MFY22.

Strategic Location of plant

The manufacturing facility of the company is located at Raghunathpali Po/Ps/Kolabira, Dist-Jharsuguda Odisha with installed capacity of 73000 MT and is in close proximity to various raw materials in the form of iron ore, pellets, coal. Alternatively, the products manufactured are also sold in the vicinity.

Key Rating Weaknesses

Leveraged capital structure albeit moderate debt coverage indicators

The capital structure of the company stood moderate with TNW of Rs 20.66 crore as on March 31, 2022 improved from Rs.17.29 crore as on March 31, 2021 due to accretion of profits to reserves. The overall gearing of the company stood moderate at 1.63x as on March 31,2022 deteriorated from 1.55x as on March 31, 2021 mainly due to increase in total debt. The TOL/TNW stood at 1.86x as on March 31, 2022; improved from 2.00x as on March 31, 2021 on account of reduction in current liabilities. The debt protection metrics of the company stood moderate with ICR of 2.97x in FY22 although declined from 8.40x in FY21. The total debt to GCA stood at 6.76x as on March 31,2022 deteriorated from 2.76x as on March 31,2021. The DSCR of the company stood at 2.58x in FY22 though deteriorated from 8.39x in FY21.

Susceptibility of operating margin to volatility in raw material prices and finished goods

Since the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situation and other macro-economic factors.

Intense competition and limited pricing flexibility in steel industry

The steel manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition. Further, the domestic steel industry is cyclical in nature, which is likely to impact the cash flows of the manufacturers including JHUL.

Cyclicality in steel industry

JHUL's products are largely used in the iron and steel industry. Hence, its business prospects are directly linked to overall fortunes of the end-user segment, which also tends to be inherently cyclical. Ability to improve market share and sustain profitability remain key rating sensitivity factors.

Supplier Concentration Risk

Since its inception, the three main suppliers to the company, for its major raw materials namely coal, dolomite and iron ore, are responsible for the supply of 98% of its raw materials. Hence, the company is exposed to a supplier concentration risk.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

JHUL's liquidity is adequate as it expects sufficient cushion in cash accruals vis-à-vis its debt repayment obligations in the next 3 years. The average utilisation of fund-based bank limits utilisation for last 12 months ended February, 2023 was 93.78%. The current ratio of the company was 1.19x, quick ratio stood at 0.12x as on March 31, 2022. The unencumbered cash and bank balance as on March 31, 2022 and December 31,2022 stood at Rs 0.14 crore and Rs. 0.03 crore respectively. The operating cycle of the company stood elongated at 102 days in FY22 with higher inventory days.

About the Company

Jai Hanuman Udyog Limited was incorporated in 2003 as a public limited company by Agrawal family. The company is engaged in manufacturing of sponge iron and the manufacturing plant is located at Raghunathpali Po/Ps/Kolabira, Dist-Jharsuguda Odisha with installed capacity of 73000 MT.

Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	99.10	134.11
EBITDA	11.04	9.36
PAT	9.33	3.27
Total Debt	26.80	33.67
Tangible Net Worth	17.29	20.66
Ratios		
EBITDA Margin (%)	11.14	6.98
PAT Margin (%)	9.41	2.44
Overall Gearing Ratio (x)	1.55	1.63

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of JHUL under the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated January 30, 2023.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Facilities	Long Term	32.75	IVR BB- / Stable	--	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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
Term Loan	-	-	Nov'26	2.75	IVR BB-/ Stable
Cash Credit	-	-	-	30.00	IVR BB-/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-JaiHanuman-mar23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.