Press Release

Jai Raj Ispat Limited

December 27, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple/ Complex/ Highly complex)
Long term Bank Facilities – Term loans	1000.00	IVR A-/ Stable [IVR A Minus with Stable Outlook]	Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	75.00 (Enhanced from Rs. 60 Cr.)	IVR A-/ Stable [IVR A Minus with Stable Outlook]	Reaffirmed	Simple
Short term Bank Facilities	10.17	IVR A2+ [IVR A Two Plus]	Reaffirmed	Simple
Total	**1085.17**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of rating takes into account the growth in revenue and profitability in FY23 Audited financials and stable H1FY24 Prov. Performance. The rating continues to derive strength from Experienced promoters, strong debt protection metrics and improved financial performance. The rating is constrained by significant capital expenditure towards capacity enhancement, intense competition from the unorganized sector and cyclicality in the steel industry and cyclical nature of the industry.

Key Rating Sensitivities:

Upward Factors:

- Substantial increase in its revenues and improve its liquidity position while maintaining healthy profit margins and credit metrics.
- Timely completion of ongoing expansion project without any cost or time overruns.

Downward Factors:

- Delay in completion of capex in the envisaged time and cost overruns.
- Significant decline in the Company's profitability leading to an adverse impact on its profitability, credit metrics and liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Experienced promoters

The promoter of JRIL, Mr Sajjan Kumar Goenka (Managing Director) has experience of over three decades in the steel industry. He is ably assisted by a team of well qualified and experienced professionals. JRIL's presence in the industry has enabled it to garner customer confidence over the decades thereby, establishing a well-reputed brand in the name of 'Jai Raj TMT' in the states of Telangana & Andhra Pradesh.

Strong Debt Protection Metrics

The company has a strong financial risk profile on account of healthy cash accruals and accumulation of a sizeable net worth over the years. The Tangible Net Worth of the company stood at Rs. 338.75 Cr. in FY23 Audited improving from that of Rs. 248.01 Cr. in FY22. With growing turnover and profitability and limited debt repayment obligations until FY25, JRIL's coverage metrics strong, as depicted by an estimated interest cover of 5.69x and DSCR of 5.26x in FY23 Audited. The liquidity position also remained comfortable, supported by healthy accruals and adequate cushion in working capital limits.

Improved Financial Performance

The operating revenue of the company in past four years has witnessed CAGR of 42.39% and y-o-y TOI improvement of ~15% in FY23 Audited. The total operating income for FY23 Audited stood at Rs. 959.07 Cr. as against Rs. 838.16 Cr. in FY22 backed by higher volume sales and increased demand from end user industries. However, in tandem with the increasing revenues of the company, the absolute profits of the company increased marginally, and experienced moderation in realizations resulting in marginal decline in the profitability margins. The EBITDA margin declined to 8.35% in FY23 from 9.50% in FY22.Similarly, PAT on absolute terms increased to Rs. 55.61 Cr. in FY23 from that of Rs. 53.07 Cr. in FY22; however PAT margin of the company declined to 5.73% in FY23 as against 6.27% in FY22.

Key Rating Weaknesses

Significant capital expenditure towards capacity

The company was undertaking capex to the tune of Rs. 751.41 Cr. towards setting-up Integrated Steel Plant with installed capacity of 0.3 million MTPA at Guttapudu, Orvakal Mandal, Dist. Kurnool, Andhra Pradesh for manufacturing of high-quality TMT Rebars through Blast Furnace Route. However, with the change in scope of the capex with project configuration revised to 0.45 million TPA. The project cost was revised from Rs. 751.49 Cr. to Rs. 1,515 Cr. The DCCO of the project was revised from Oct-2023 to March-2024. As on September-2023, the company has incurred project cost to the tune of Rs. 957.01 Cr. funded by mix of debt and promoters' contributions. End Product, TMT Rebars, are used in Infrastructure, Railways, Aviation, Engineering, Automobile & Construction Sectors. Improvement in revenue and profitability & other financial indices of the enhanced capacity project. Capex would result in moderation in its capital structure and debt coverage indicators, going forward. Although the project is progressing as per schedule, successful completion of the project and ability of the company to derive envisaged benefits from the same remain critical from rating and credit perspective.

Intense competition from the unorganized sector and cyclicality in the steel industry

The Indian steel industry is characterized by high degree of fragmentation due to the presence of the large numbers of unorganized players. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers. Furthermore, the industry is highly cyclical in nature resulting in fluctuating revenue and profitability.

Cyclical Nature of the industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch.

Analytical Approach: Standalone Approach

Applicable Criteria:

[Rating Methodology for Manufacturing Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Criteria of Rating Outlook | Infomerics Ratings]

Liquidity –Adequate

The company has a current ratio of 2.57x in FY23 Audited and an average working capital facilities' utilization of ~55% reflecting a moderate utilization. The liquidity position of the company is further supported by sufficient accruals and no major debt repayment obligation until FY25. Although, the company in undertaking a large debt funded capex and the debt repayments are likely to be high in future, nevertheless, JRIL is envisaging to achieve significant accruals with increased capacity to comfortably service the debt obligations.

About the Company:

Jai Raj Ispat Limited (JRIL) was incorporated in 1984 as private limited company by Mr. Sajjan Kumar Goenka and his late wife, Mrs. Nirmala Devi Goenka, and was later reconstituted as a public limited company in 1998. The company is located in Jeedimetla, Telangana and is engaged in manufacturing of thermo-mechanically treated (TMT) steel bars, billets and sponge iron. JRIL has three manufacturing units viz. a furnace division (FD) for billets in Telangana with installed capacity of 1,00,000 MTPA, rerolling mill division (RMD) for TMT bars in Telangana with installed capacity of 1,00,000 MTPA and sponge iron manufacturing division in Bellary, Karnataka with installed capacity of 1,00,000 MTPA. JRIL primarily markets its products under the brand 'Jai Raj'. Currently, the company is undertaking capex towards setting-up Integrated Steel Plant with installed capacity of 0.45 million MTPA at Dist. Kurnool, Andhra Pradesh for manufacturing of high-quality TMT Rebars through Blast Furnace Route.

Financials (Standalone):

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	838.16	959.07
EBITDA	79.61	80.06
PAT	53.07	55.61
Total Debt	245.27	600.50
Adj. Tangible Networth	391.84	471.36
Ratios		
EBITDA Margin (%)	9.50	8.35
PAT Margin (%)	6.27	5.72
Overall Gearing Ratio (Adjusted) (x)	0.62	1.27

Status of non-cooperation with previous CRA:

The rating continues to be Issuer Not Co-operating by Brickworks Ratings vide Press release dated November 09, 2022. The reason provided by Brickworks Ratings was non-furnishing of information for monitoring of the rating.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Nov. 15, 2022) & (June 07, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long-term	1000.00	IVR A-/ Stable	IVR A-/ Stable	--	--
2.	Cash Credit	Long-term	75.00	IVR A-/ Stable	IVR A-/ Stable	--	--
3.	Letter of Credit	Short-term	5.00	IVR A2+	IVR A2+	--	--
4.	Bank Guarantee	Short-term	5.00	IVR A2+	IVR A2+	--	--
5.	Forward Contract	Short-term	0.17	IVR A2+	IVR A2+	--	--

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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.

For more information visit www.infomerics.com

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	-	-	March-2033	300.00	IVR A-/ Stable
Term Loan	-	-	March-2033	200.00	IVR A-/ Stable
Term Loan	-	-	June-2033	200.00	IVR A-/ Stable
Term Loan	-	-	June-2033	200.00	IVR A-/ Stable
Term Loan	-	-	June-2033	100.00	IVR A-/ Stable
Cash Credit	-	-	-	75.00	IVR A-/ Stable
Letter of Credit	-	-	-	5.00	IVR A2+
Bank Guarantee	-	-	-	5.00	IVR A2+
Forward Contract	-	-	-	0.17	IVR A2+

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

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-JaiRaj-dec23.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