Press Release

Jai Raj Ispat Limited

November 27, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities – Term loans	1000.00	IVR A-/ RWDI [IVR A Minus with Rating Watch under Developing Implication]	IVR A-/ Stable [IVR A Minus with Stable Outlook]	Reaffirmed and placed under rating watch with developing implications	Simple
Long Term Bank Facilities – Cash Credit	75.00	IVR A-/ RWDI [IVR A Minus with Rating Watch under Developing Implication]	IVR A-/ Stable [IVR A Minus with Stable Outlook]	Reaffirmed and placed under rating watch with developing implications	Simple
Short term Bank Facilities	10.17	IVR A2+ [IVR A Two Plus]	IVR A2+ [IVR A Two Plus]	Reaffirmed and placed under rating watch with developing implications	Simple
Proposed Long Term Bank Facilities- Term loan	192.00	IVR A-/ RWDI [IVR A Minus with Rating Watch under Developing Implication]	-	Assigned	Simple
Proposed Long Term Bank Facilities- Cash Credit	318.00	IVR A-/ RWDI [IVR A Minus with Rating Watch under Developing Implication]	-	Assigned	Simple
Total	**Rs 1,595.17 Crore (One thousand ninety five crore and seventeen lakh Rupees Only)**				

Details of Facilities/Instruments areas in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its ratings on the bank facilities of Jai Raj Ispat Limited (JRIL). The rating continues to derive strength from experienced promoters, strong debt protection metrics and improved financial performance. The rating is constrained by cost escalation along with delays in capex implementation, intense competition from the unorganized sector and cyclical nature of the industry.

The rating is placed under RWDI (Rating watch with developing implications) on account of the ramp up in utilisation of its recently commissioned capacity yet to be achieved. The company has achieved the Commercial Operations Date (COD) for its capex program on 21st October 2024. The capex entails an increase in its TMT bar production capacity from 100,000 tpa to 550,000 tpa along with blast furnace and sintering plant. The total investment related to this capex is Rs.1811.28cr with the sintering plant expected to commence operations from December 2024. The large repayments scheduled for FY26 and FY27 are expected to be met from the enhanced cash accruals from the expanded capacity. Given the challenges typically encountered during operationalisation of newly installed steel plants, any significant delays in the ramp up of capacity utilisation could undermine the large projected revenue and cash flows over next two years thereby pressurising liquidity.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in its revenues and improvement of its liquidity position while maintaining healthy profit margins.
- Improvement in the debt protection metrics.

Downward Factors

- Inability to ramp up the operations of newly installed capacities in timely fashion leading to liquidity stress.
- Significant decline in the company’s profitability leading to an adverse impact on its profitability, and liquidity position.
- Deterioration in the debt protection metrics.

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.452.14 crore at end FY24 (Audited) improving from Rs. 338.75 crore at end FY23. With growing turnover and profitability and limited debt repayment obligations until FY25, JRIL's coverage metrics strong, as depicted by an interest cover of 8.43x and DSCR of 8.23x in FY24 (Audited). The liquidity position also remained comfortable, supported by healthy accruals and adequate cushion in working capital limits. Leverage is expected to peak in FY25, with overall gearing expected to be close to 2.0x at the year end. Accordingly, EBITDA interest cover is expected to fall below 3.0x in the year, from 8.43x in FY24. JRIL's key credit ratios are expected to display a steady improvement from FY26 onwards, with scheduled repayments of term loans.

Integrated operations

JRIL's operations previously spanned sponge iron, steel melting, continuous casting, billeting and rolling, whereas post completion of the Rs.1811.28cr capex the company's operations are further backward integrated upto blast furnace and sintering, while simultaneously expanding the overall production capacity of TMT bars from 100,000 tpa previously to 550,000 tpa. Integrated nature of operations allows for greater control over costs as well as quality, while the enhanced capacity is expected to benefit JRIL by way of scale economies. As compared with TMT bar producers in the unorganised segment, JRIL, which already displayed higher EBITDA margins, is expected to benefit further by way of cost savings of around Rs.2000/ton (due to primary steel production from iron ore fines using blast furnace) using thereby further improving its profitability.

Substantial increase in scale and profitability going forward

The operating revenue of the company declined from Rs 959.08 crore in FY23 to Rs. 859.40 crore in FY 24, due to lower steel realisations in FY 24, though the quantity of TMT bars increased from 1,21,286 MT in FY23 to 1,28,303 MT in FY 24. However, revenue is expected to improve to over Rs 1500 crore in FY 25, mainly on account of revenue generated from existing capacity (100,000 TPA) as well as from new capacity of 450,000 MTPA. Despite decline in the TOI, the EBITDA margin was maintained at 8.26% in FY24 compared with 8.35% in FY23. PAT margin of the company increased to 6.69% in FY24 as against 5.72% in FY23, mainly on account of reduction in the interest expense due to capitalisation of interest on unsecured loans invested in the project. The cost savings from backward integration are expected to sustain EBITDA margins are substantially higher levels, while the enhanced capacity is likely to enable the scaling up of revenues to over Rs.2500 crores in FY26.

Key Rating Weaknesses

Cost escalation along with delays in capex implementation

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 and again to Rs 1811.28 Cr. The DCCO of the project was revised from Oct-2023 to March-2024 which was further revised to Oct 2024. As on October 2024, the company has incurred project cost to the tune of Rs. 1739 Cr.The project achieved COD as on 21st October 2024, and the company expects fast ramp up in capacity utilization considering the inherently strong demand for TMT bars in its key markets of Telangana and Andhra Pradesh.

Intense competition from the unorganized sector

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, , thereby limiting the bargaining power vis-à-vis the customers.

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:

Criteria on assigning rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Policy on Default Recognition and Post-Default Curing Period

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company has a current ratio of 2.41x in FY24 and its average cash credit utilization during last 12 months ended 30th September 2024 is ~63% reflecting a healthy liquidity position. Owing to the healthy profitability and cash accruals, the coverage ratios are expected to be comfortable. The cash accrual expected to be in line of Rs 136 crore to Rs 440 crore for FY25-FY27 against debt repayments in range of Rs 0.07 crore to Rs 149 crore.

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. The company was undertaking capex towards setting-up Integrated Steel Plant with installed capacity of 4,50,000 MTPA at Guttapudu, Orvakal Mandal, Dist. Kurnool, Andhra Pradesh for manufacturing of high-quality TMT Rebars through Blast Furnace Route. The DCCO of the project was achieved in October 2024.JRIL primarily markets its products under the brand 'Jai Raj'.

Financials (Standalone):

INR in Crore

For the year ended/ As on*	31-03-2023 (Audited)	31-03-2024 (Audited)
Total Operating Income	959.08	859.40
EBITDA	80.06	70.96
PAT	55.61	58.49
Total Debt	465.12	855.93
Tangible Net worth	471.36	622.79
EBITDA Margin (%)	8.35	8.26
PAT Margin (%)	5.72	6.69
Overall Gearing Ratio (x)	0.99	1.37
Interest Coverage(x)	5.69	8.43

* *Classification as per Infomerics' standards*

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: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (Dec 27,2023)	Date(s) & Rating(s) assigned in 2022-23 (Nov. 15, 2022) & (June 07, 2023)	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan	Long-term	1000.00	IVR A-/ RWDI	IVR A-/ Stable	IVR A-/ Stable	--
2.	Cash Credit	Long-term	75.00	IVR A-/ RWDI	IVR A-/ Stable	IVR A-/ Stable	--
3.	Letter of Credit	Short-term	5.00	IVR A2+	IVR A2+	IVR A2+	--
4.	Bank Guarantee	Short-term	5.00	IVR A2+	IVR A2+	IVR A2+	--
5.	Forward Contract	Short-term	0.17	IVR A2+	IVR A2+	IVR A2+	--
6	Proposed Cash Credit	Long-term	318	IVR A-/ RWDI	-	-	-
7	Proposed Term Loan	Long-term	192	IVR A-/ RWDI	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with 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	-	-	March-2033	300.00	IVR A-/ RWDI
Term Loan	-	-	March-2033	200.00	IVR A-/ RWDI
Term Loan	-	-	June-2033	200.00	IVR A-/ RWDI
Term Loan	-	-	June-2033	200.00	IVR A-/ RWDI
Term Loan	-	-	June-2033	100.00	IVR A-/ RWDI
Cash Credit	-	-	-	75.00	IVR A-/ RWDI
Letter of Credit	-	-	-	5.00	IVR A2+
Bank Guarantee	-	-	-	5.00	IVR A2+
Forward Contract	-	-	-	0.17	IVR A2+
Proposed Cash Credit	-	-	-	318.00	IVR A-/ RWDI
Proposed Term Loan	-	-	-	192.00	IVR A-/ RWDI

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-JaiRaj-nov24.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated analysis: 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.