May 17, 2023

J.R. Metal Chennai Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	15.00	15.00	[ICRA]BBB (Stable); reaffirmed
Letter of Credit	55.00	115.00	[ICRA]A3+; reaffirmed/assigned for enhanced amount
Purchase Bill Discounting	15.00	0.00	-
Term Loans	0.00	60.00	[ICRA]BBB (Stable); assigned
Total	**85.00**	**190.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has factored in the consolidated financial profile of J.R. Metals Chennai Limited (JRM/the company) and its 100% overseas subsidiary, J.R. Metaux MG Sarlu. These entities are collectively referred to as the J.R. Group of Companies.

The ratings reaffirmation factors in the company's healthy revenue/earnings growth and debt protection metrics in FY2022 and FY2023, supported by cost savings from operationalisation of the hot-charging facility, along with savings in fixed costs due to greater asset sweating in FY2023. The company's focus on higher share of sales from Government orders, which fetch higher realisations, has supported its margin improvement in the previous fiscal. While the commodity price rally has withered away over the last few quarters, JRM's FY2024 operating profits are expected to be supported by the recently commissioned 25-MW solar plant in the current fiscal. As per ICRA's estimates, the same has the potential to generate sizeable savings of ~Rs. 30 crore per annum. This, along with its prudent expansion plans, would keep the leverage and debt protection metrics at comfortable levels, going forward. ICRA has noted that the company's standalone OPBIDTA[1] witnessed a compounded annual growth rate (CAGR) of 57% between FY2017 and FY2022, supported by operational efficiencies, healthy capacity utilisation rates, and partially backward integrated billet plant and sponge iron plant, augmenting cost competitiveness. The company's financial profile is characterised by a comfortable capital leverage with an estimated TOL/TNW[2] of 1.4 times as on March 31, 2023, and healthy debt coverage metrics with an estimated interest coverage of 12.6 times in FY2023.

The ratings also incorporate the extensive experience of JRM's promoters in the steel industry, the company's established relationships with customers and suppliers and its diversified customer base. The ratings have favourably factored in the capital cost savings of ~Rs. 20 crore (budgeted cost: Rs. 115 crore, actual cost: Rs. 95 crore) during the execution of the now commissioned 25-MW solar power project, which demonstrates the company's efficient project execution capabilities. JRM is further planning to increase the furnace and rolling mill capacity by another 1,68,000 metric tonnes per annum (MTPA) (taking the aggregate capacity to 2,88,000 MTPA from 1,20,000 MTPA) at a budgeted cost of ~Rs. 45 crore and has received a Letter of Intent (LOI) of Rs. 50 crore from lenders to entirely fund its execution, aiding its liquidity position. In addition, JRM has enhanced its bill discounting facility which, along with its efficient working capital management, supports the overall liquidity profile of the company.

[1] Operating Profit Before Interest, Depreciation, Taxes and Amortisation

[2] Total Outside Liabilities/Tangible Net Worth

The ratings are, however, constrained by the intense competition in the fragmented and commoditised TMT bars segment, which limits its pricing flexibility and exposes the company to any fluctuations in raw material prices and forex rates, especially in the absence of any hedging strategy. In addition, the company's modest scale of operations makes it vulnerable to any sustained period of industry downturn. JRM's business also remains vulnerable to the inherent cyclicality in the steel sectors, which is likely to keep its cash flows volatile. Further, ICRA notes the stabilisation risks associated with the ~Rs. 95-crore capex incurred for the 25-MW solar plant for captive solar power generation unit, along with the execution risks associated with the upcoming capex for capacity enhancement in the billet and TMT[3] production will be a key credit monitorable.

The Stable outlook on the long-term rating indicates ICRA's expectations that JRM's profits and accruals are likely to remain at healthy levels, going forward, which would aid the company to keep its credit metrics at a comfortable level.

Key rating drivers and their description

Credit strengths

Healthy growth in earnings in FY2023, strengthening JRM's credit metrics – JRM's consolidated operating earnings surged by ~51% to Rs. 75.4 crore in FY2022. JRM is also estimated to have recorded a further growth in the operating profits in FY2023, supported by a better customer mix, higher asset sweating, and cost savings emanating from direct hot-charging facilities. Favourable domestic demand of steel products, along with structural cost savings flowing from operationalisation of the captive solar power generation unit, are expected to support its operating profits, leading to credit metrics remaining at healthy levels.

Stabilisation of operations of captive solar power generation unit expected to lead to sizeable structural cost savings – JRM's operating profits are expected to be supported by the recently commissioned 25-MW solar plant in the current fiscal. An aggregate capex of ~Rs. 95 crore has been incurred till date out of which Rs. 55 crore is being funded in the form of term loan. The capital cost savings of ~Rs. 20 crore (budgeted cost: Rs. 115 crore, actual cost: Rs. 95 crore) during the execution of the now commissioned 25-MW solar power project demonstrates the company's efficient project execution capabilities. The project is estimated to meet ~50% of JRM's annual power requirement, which can potentially lead to sizeable structural cost savings of ~Rs. 30 crore per annum.

Extensive track record of promoters – The JR Group is involved in the manufacturing of rebar and related products since 1990 through Narayan Industries. Extensive experience and established relationships of the promoters with their major customers have supported JRM to garner repeat orders, including from Government agencies.

Healthy growth in capacity; partial backward integration into manufacturing of billets and sponge iron supports cost competitiveness – JRM increased its manufacturing capacity for billets by 40,000 MT and 20,000 MT in FY2019 and FY2020, respectively, whereas TMT manufacturing capacity was increased by 30,000 MT in FY2019. It is planning to increase the furnace and rolling mill capacity by another 1,68,000 MTPA (taking the aggregate capacity to 2,88,000 MTPA from 1,20,000 MTPA) by increasing the number of stands in the existing rolling mill, along with an additional induction furnace of 25 tonnes capacity at a budgeted cost of ~Rs. 45 crore. JRM has received a Letter of Intent (LOI) of Rs. 50 crore from the lenders to entirely fund its execution, aiding its liquidity position. It has received approvals from the Tamil Nadu Pollution Control Board for this expansion plan in August 2022, which is targeted to be commissioned within 18 months from the approval i.e., in the first half of FY2025. Apart from the expected stabilisation of operations of the solar unit in the current fiscal, operationalisation of the hot-charging facility in FY2023 has supported JRM's operating margin in the last fiscal, which has reduced power and fuel consumption for reheating of billets.

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Comfortable capital structure and debt coverage metrics – The company's financial profile is comfortable, marked by a low gearing and healthy coverage indicators. In addition, JRM has enhanced its bill discounting facility which, along with its efficient working capital management, supports the overall liquidity profile of the company. Low debt levels and steadily rising net worth, aided by healthy accruals over the years, resulted in a comfortable capital structure and leverage indicators. The demand conditions from the end-user industries remain favourable over the near-to-medium term, which, along with the cost-saving initiatives, are likely to support sales volumes and overall earnings in FY2024.

Credit challenges

Intense competition in fragmented TMT market; modest scale of operations makes the company vulnerable to any prolonged industry downturn – JRM, operating in a highly fragmented industry, is exposed to intense competition from various established and small TMT manufacturers. This restricts its pricing flexibility to an extent, making the company's operating margins vulnerable to any fluctuations in raw material prices. Moreover, the company's modest scale of operations makes it vulnerable to any prolonged period of industry downturn.

Project execution and stabilisation risks associated with ongoing capex plans – The operationalisation of the 25-MW solar plant got deferred by 40 days due to delay in the delivery of solar panels by the suppliers and re-routing of few transmission lines. ICRA notes that the stabilisation risks associated with the ~Rs. 95-crore capex incurred for the 25-MW solar plant for captive solar power generation unit, along with the execution risks associated with the upcoming capex for capacity enhancement in the billet and TMT[4] production will be a key credit monitorable.

Susceptibility of margins to foreign exchange rate fluctuation risks – JRM's operations are raw-material intensive with raw materials and consumables consumption accounting for over 75% of its operating income (OI) during the last five fiscals. It imports a predominant share of the total scrap from overseas suppliers, which exposes the company to fluctuations in exchange rates, especially in the absence of any hedging strategy.

Earnings exposed to inherent cyclicality of steel industry – The company's operations are vulnerable to any adverse changes in the demand-supply dynamics in the end-user industries such as infrastructure and real estate, among others. The cyclicality inherent in these sectors is likely to keep the company's profits and cash flows volatile.

Liquidity position: Adequate

JRM's liquidity is adequate, with free cash and liquid investments of ~Rs. 13.93 crore as on May 12, 2023. The company has enhanced its non-fund based limits to Rs. 115 crore from Rs. 55 crore to fund its raw material procurements, with an utilisation level of ~73% on an average during January 2022 to February 2023. The liquidity is further supported by the enhancement in the Letter of Credit discounting facility to Rs. 85 crore from Rs. 15 crore, giving an option to accelerate realisation of LC-backed sales to tide over any potential cash flow timing mismatch. ICRA also notes that the company has received a Letter of Intent (LOI) of Rs. 50 crore from the lenders to fund the company's expected capex plans in the future (to increase the steelmaking capacities by 1,68,000 MTPA). This, along with adequate drawing power and healthy relationship of the company with the lenders, further supports the overall liquidity profile of the company.

Rating Sensitivities

Positive factors – The ratings could be upgraded if the company continues to report healthy earnings for a sustained period, leading to a further improvement in the liquidity profile and the credit metrics.

Negative factors – Pressure on the ratings could arise if the liquidity position/ credit metrics weakens due to any significant decline in cash accruals or stretched receivables. Further, any sizeable incremental support to Group entities or large debt-funded capex could also lead to ratings downgrade. Specific credit metrics that could lead to ratings downgrade include an

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increase in TOL/TNW[5] by more than 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated financial statements of the issuer.

About the company

J.R. Metal Chennai Limited (JRM), established in 2008, is the flagship company of the J.R. Group of Companies, founded by Mr. Ramchander Singh, the Group Chairman. JRM manufactures thermo-mechanically treated (TMT) bars and operates a fully mechanised manufacturing facility in Thiravallur district of Tamil Nadu, with a production capacity of 1,20,000 MTPA (expected to increase to 2,88,000 MTPA due to setting up of another furnace in the existing facility). JRMCL has also backward integrated into the manufacturing of mild steel (MS) billets with a capacity of 1,20,000 MTPA (expected to increase to 2,88,000 MTPA as mentioned above) along with a 66,000-MTPA sponge iron manufacturing plant in Karnataka. The company markets the TMT bars under the brand name, JRTMT. The company is ISO 9001:2015 certified, and its products also bear the ISI mark.

Key financial indicators (audited)

JRMCL	Consolidated		Standalone		
	FY2021	FY2022	FY2021	FY2022	11M FY2023 (Provisional)
Operating income	531.5	863.0	491.5	820.5	841.8
PAT	30.6	49.7	29.5	49.8	73.2
OPBDIT/OI	9.4%	8.7%	9.1%	8.8%	9.2%
PAT/OI	5.8%	5.8%	6.0%	6.1%	8.7%
Total outside liabilities/Tangible net worth (times)	0.9	1.2	0.9	1.3	1.1
Total debt/OPBDIT (times)	0.2	0.1	0.3	0.1	0.8
Interest coverage (times)	32.1	26.5	28.7	27.6	14.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[5] Total Outside Liabilities/ Tangible Net Worth

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 17, 2023	--	February 28, 2022	November 30, 2020
1	**Cash Credit**	Long term	15.00	5.61	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**
2	**Letter of Credit**	Short term	115.00	-	**[ICRA]A3+**	-	**[ICRA]A3+**	**[ICRA]A3**
3	**Purchase Bill Discounting**	Short term	0.00	-	-	-	**[ICRA]A3+**	**[ICRA]A3**
4	**Term Loans**	Long term	60.00	56.23	**[ICRA]BBB (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	15.00	[ICRA]BBB (Stable)
NA	**Letter of Credit**	-	-	-	115.00	[ICRA]A3+
NA	**Term Loans**	Drawn down in FY2023	NA	Repayable in 72 monthly installments (with a moratorium of 12 months) with outer maturity in FY2029	60.00	[ICRA]BBB (Stable)

Source: Company: NA: Not available

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
J.R. Metaux MG Sarlu	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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