

March 22, 2024

Jaideep Steelworks India Private Limited: [ICRA]A(Stable)/[ICRA]A2+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Term Loan	65.00	[ICRA]A(Stable); assigned
Long Term - Fund Based – Cash Credit	50.00	[ICRA]A(Stable); assigned
Short Term - Non Fund Based – Others	1.40	[ICRA]A2+; assigned
Total	116.40	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings considers the status of Jaideep Steelworks India Private Limited (JSIPL) as a wholly-owned subsidiary of Jaideep Ispat & Alloys Private Limited (JIAPL, rated at [ICRA]A+(Stable)/[ICRA]A1) and expectation that JSIPL would receive significant operational, financial and management support from JIAPL because of its parentage.

The ongoing capital expenditure (capex) under JSIPL is strategically important for the Group (JIAPL and JSIPL together) as it will diversify the portfolio by adding steel pipes project. JSIPL is starting a 1,50,000-MTPA electric resistance welded (ERW) tube mill with a project cost of around Rs. 117 crore, funded through term loan of Rs. 65 crore and the remaining through promoters' loan/equity. The company will commence operations in three phases of which the first one is expected to commence in March 2024. Timely commissioning of the plant without any cost overrun and stabilisation of the same will be a key credit ratings factor. JSIPL is likely to benefit from the established market position and supplier network of the Group. Besides, the shared name reflects JSIPL's strategic significance to its parent. While assigning the ratings, ICRA has also noted that JSIPL's entire bank debt facilities are backed by a corporate guarantee from JIAPL.

The ratings, however, remain constrained by project implementation and stabilisation risks, including risks related to cost/time overrun. In addition, owing to the debt-funded capex undertaken in JSIPL, the credit metrics are expected to remain at moderate levels in FY2025 and FY2026. Further, the ratings are constrained by the company's exposure to risks arising from volatile raw material prices and intense competition, which might constrain the operating margins.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group's established track record of operations with experienced management will enable JSIPL to implement the project within the estimated cost and time. The same is also likely to help JSIPL ramp up operations to remain self-sufficient in meeting its debt servicing obligations, post commissioning of operations.

Key rating drivers and their description

Credit strengths

Wholly-owned subsidiary of JIAPL, which has a strong financial risk profile – JSIPL, a 100% subsidiary of JIAPL, has a healthy operational and financial risk profile. ICRA expects JSIPL to receive significant operational, financial and management support from JIAPL because of its parentage.

Established track record of promoters in steel industry – The company's promoters have around three decades of experience in the steel industry. JSIPL is likely to benefit from the operational synergies ensuing from JIAPL's cost competitive operations, its established market position and supplier and distributor network.

Credit challenges

Exposure to project implementation and offtake risks – The company is undertaking a project for setting up an ERW tube mill with an installed capacity of 1,50,000 MTPA. The total envisaged cost of the project is around Rs. 117 crore, to be funded through a mix of term loans of Rs. 65 crore and the balance through equity infusion/promoter funding. The plant is expected to commence operations in phases, with the first phase to start production in March 2024 and the balance in H1 FY2025. Consequently, the company remains exposed to implementation risks associated with the greenfield projects along with offtake risks.

Credit metrics likely to remain moderate in FY2025 and FY2026 owing to debt-funded nature of the project – The company's capital structure is leveraged owing to the debt-funded capex undertaken to set up the project. The project's debt coverage metrics are expected to remain moderate with the gearing level likely to remain above 4 times and DSCR below 1.5 times in FY2025 and FY2026.

Exposed to intense competition and volatility in raw material prices – The company's profitability remains susceptible to the competition prevailing in the market, given the fragmented nature of the steel pipes industry. The ERW pipes market is inherently competitive with the presence of several large established as well as many unorganised players. Further, the profitability is vulnerable to volatility in raw material prices.

Liquidity position: Adequate

The liquidity position of the company remains adequate as the project-related funding risks have been addressed with the tying up of the entire debt requirement for the project worth Rs. 65 crore. Further, the working capital limits of Rs. 50 crore have also been sanctioned and are available for disbursement. The capex has been funded by a mix of term loan, equity infusion and promoter loans. JIAPL's ability to provide need-based funding to its subsidiary provides additional comfort. Thereafter, the liquidity profile will be driven by timely commissioning of the project and the company's ability to successfully ramp up operations.

Rating sensitivities

Positive factors – Successful and timely implementation of the entire project within the envisaged costs, and profitable ramp-up of operations, thereafter, resulting in a sustained improvement in the company's financial risk profile, will be positive rating triggers. An improvement in the credit profile of the parent could also be a positive factor.

Negative factors – Pressure on the ratings could arise if the company experiences significant time and cost overrun, slow ramp-up, and/or weak revenue growth and profitability, resulting in inadequate coverage metrics. Further, a deterioration in the credit profile of the parent and/or weakening in linkages/ strength of support from the parent could be negative rating triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Iron & Steel
Parent/Group support	Group Company: Jaideep Ispat & Alloys Private Limited (JIAPL) The ratings factor in ICRA's expectation that JIAPL (rated [ICRA]A+(Stable)/A1) would be willing to extend financial support to JIAPL, if there is a need.
Consolidation/Standalone	Standalone

About the company

Jaideep Steelworks India Pvt Ltd, a 100% subsidiary of Jaideep Ispat & Alloys Private Limited, is setting up a 1,50,000-MTPA installed capacity greenfield project by establishing tube mills for manufacturing electric resistance welded (ERW) pipes from hot rolled carbon steel coils at Pithampur. The company will start operation in three phases, of which the first one is expected to start in March 2024. The second phase is expected to be completed by mid-April 2024 and the third phase by September 2024.

Key financial indicators (audited)

JSIPL (Standalone)	FY2022	FY2023
Operating income	-	-
PAT	-	-0.7
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	-	0.1
Total debt/OPBDIT (times)	-	NM
Interest coverage (times)	-	NM

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; NM: Not meaningful

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 22, 2024			
1 Fund Based – Term Loan	Long- term	65.00	22.0	[ICRA]A(Stable)	-	-	-
2 Fund Based – Cash Credit	Long-term	50.00	-	[ICRA]A(Stable)	-	-	-
3 Non Fund Based - Others	Short-term	1.40	-	[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term– Cash Credit	Simple
Short -term Non fund-based –others	Very 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	Long Term - Fund Based – Term Loan	FY2024	NA	FY2034	65.00	[ICRA]A (Stable)
NA	Long Term - Fund Based – Cash Credit	NA	NA	NA	50.00	[ICRA]A (Stable)
NA	Short Term - Non Fund Based – Others	NA	NA	NA	1.40	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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