September 06, 2022

Janki Corp Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Long term – Fund Based – Cash Credit	10.00	50.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short Term – Unallocated	2.50	-	-
Proposed Short Term – Bank Guarantee	35.00	50.00	[ICRA]A2; upgraded from [ICRA]A3+
Long Term – Unallocated	3.50	-	-
Total	**51.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade considers the sustained improvement in Janki Corp Limited's (JCL) financial risk profile expected in the near term, also witnessed by a significant improvement in FY2022. The company registered a 50% growth in its top line in FY2022 on the back of increased sales volume as well as elevated realisation. Going forward, while the realisations are expected to moderate, high sales volume and attractive contribution margins would continue to generate healthy cash accruals for the company, though lower than FY2022 levels. Moreover, the company's debt protection metrics and liquidity would remain comfortable in FY2023 with no long-term debt and no major capex. Additionally, ICRA believes that the textile business would continue to support the company's revenue and profitability, though with a relatively smaller share, in the future years. The ratings continue to draw comfort from the extensive experience of the promoters in the steel and textile businesses and cost competitiveness emanating from the captive waste heat recovery boiler (WHRB) based power plant, iron ore beneficiation and pellet manufacturing facilities of JCL. The ratings derive strength from the attractive location of the company's plants in terms of proximity to various raw material sources and target buyer markets.

The ratings are, however, tempered by the company's exposure to the inherent cyclicality in the steel industry, which keeps its profits and cash flows volatile. ICRA estimates that with moderation in steel prices, the revenue and profitability of the company would moderate to some extent in FY2023. However, the company's cash accruals are estimated to be healthy although with some moderation. The company's margins remain susceptible to volatility in raw material prices and foreign exchange rates. The proposed bank limits, mainly for the company's working capital requirements, would provide comfort to its liquidity and operations. The ratings are impacted by the highly commoditised and fragmented nature of the secondary steel industry, resulting in intense competition, thereby limiting the company's pricing flexibility and restricting the scope for an improvement in profitability. ICRA also notes the company's exposure to regulatory risks as any unfavourable change in the Government policy may impact its raw material availability and prices, as witnessed in the past.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that JCL's high capacity utilisation, presence of a captive power plant and proximity to raw material sources will continue to support its business positioning and healthy cash accruals. The company's capital structure and debt coverage metrics are also likely to remain comfortable, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – The promoters of the company, Mr. Raghunath Mittal and Mr. Rahul Mittal, have extensive experience in the textile and steel businesses, which helped the company establish healthy relationships with customers and suppliers. The company has been involved with textile processing and steel manufacturing businesses since 1993 and 2005, respectively. At present, the company has a textile processing unit with a capacity of 720 lakh metre per annum, which is mainly involved in conversion business. The plant located at Bellary in Karnataka houses manufacturing units of sponge iron, pellet, iron ore fines beneficiation and power with an annual capacity of 6,00,000 MTPA, 1,80,000 MTPA, 6,00,000 MTPA and 18.5 MW, respectively.

Strong operating and financial performances along with nearly debt-free status – The company reported revenue of Rs. 955.0 crore in FY2022, reflecting a 53.0% YoY growth, led by faster-than-anticipated demand recovery and higher realisation in the steel industry in FY2022. Its operating profit margin (OPM) improved to 24.5% in FY2022 from 21.0% in FY2021, resulting in large cash accruals. ICRA expects moderation in the company's cash accruals in FY2023 on account of price correction for steel in the domestic market and rise in raw material costs, especially coking coal, resulting in relative contraction in contribution margins. Additionally, textile processing business, which contributes around 10-15% to the company's total revenue, would continue to support the company's profitability in the future.

Comfortable liquidity and debt protection metrics – The company has maintained comfortable liquidity position and healthy debt protection metrics (as evident from limited long-term debt and stable margins), which have translated into healthy coverage indicators. Going forward, the company does not have any major fresh debt-funded capex plan.

Proximity of the plant ensures easy access to raw materials – The company's steel plant is located in Bellary, Karnataka which is known for its iron ore deposits. The company procures iron ore primarily from the local miners and traders based out of Bellary, all of which are located near the company's plant. The proximity of the company's plant to suppliers ensures smooth access to raw materials and helps in better inventory management. Further, iron-ore beneficiation and pellet manufacturing facilities provide comfort to the company in terms of cost competitiveness. Additionally, the textile processing unit of the company is located at Bhilwara, Rajasthan, a major textile hub and provides regular conversion business to the company.

Credit challenges

Exposure to cyclicality inherent in the steel industry – The steel industry is characterised by its inherent cyclicality. This is likely to keep the profitability and cash flows of all the players in the industry, including JCL, volatile going forward as well. The company's operations are also vulnerable to any adverse changes in the demand-supply dynamics in the end-user industries such as infrastructure, real estate, among others. Further, in case of any adverse change in the contribution margins, the company's cash accruals could be under pressure, which would necessitate requirement of working capital limits to fund its inventory.

Margins susceptible to volatility in raw material prices – The company's profit margins remain susceptible to volatility in major raw material prices such as iron ore and non-coking coal. ICRA, however, notes that the company has been able to pass on the increase in raw material prices to its customers, particularly in FY2021 and FY2022, as reflected in stable contribution of sponge iron. Besides, the entire non-coking coal requirement of the company is met through imports, which exposes its profit margins to risks arising from volatility in foreign exchange rates. ICRA notes that the company is planning to take part in future auctions of iron ore mines. If successful, it will provide significant comfort in terms of raw material availability and price risks.

Highly commoditised and fragmented nature of secondary steel industry – The company operates in a highly commoditised industry with raw material and power cost accounting for 80-90% of the revenues. The secondary steel industry is characterised by intense competition arising from low product differentiation and entry barriers. The highly commoditised and fragmented nature of the secondary steel industry results in intense competition and limit the pricing flexibility, which ultimately restrict the scope for an improvement in profitability.

Exposure to regulatory risks – JCL, like other sponge iron and pellet manufacturers, remains exposed to regulatory risks, as any unfavourable change in the Government policy may impact its raw material availability and prices.

Liquidity position: Adequate

JCL's liquidity position is adequate, which is supported by its healthy fund flow from operations in FY2022 and estimated accruals in FY2023. As per ICRA's estimates, the company's cash accruals are likely to remain healthy in FY2023 though with some moderation. While the company does not have any major capex plans in the near term, regular annual maintenance capex of Rs. 10-15 crore is likely in the future, which would be funded by internal accruals. The company does not have any major external debt. ICRA believes that the proposed fresh bank limits (bank guarantee and working capital) of around Rs. 100 crore, which the company is planning to avail, would provide comfort to its liquidity and operations.

Rating sensitivities

Positive factors – ICRA could upgrade JCL's ratings if the company demonstrates a sustained period of healthy profitability and cash accruals along with a comfortable liquidity position.

Negative factors – ICRA could downgrade the ratings if there is a significant decline in revenues, resulting in low operating profits and weakened liquidity position. Significant debt-funded capex, leading to weakened coverage indicators and liquidity could also result in ratings downgrade. The company's inability to tie up for bank limits would be a key credit negative. Specific credit metric that might trigger ratings downgrade include Total Debt/OPBIDTA of more than 2.5 times as on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metal entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in September 1993, Janki Corp Limited is promoted by the Rajasthan-based Mittal family. Initially, the company established a textile processing unit at Bhilwara in Rajasthan with a capacity of 720 lakh metre per annum. In 2005, the company commissioned a sponge iron manufacturing unit at Bellary in Karnataka with a capacity of 1,80,000 MTPA. The company commissioned a waste heat recovery boiler (WHRB)-based 15 MW power plant in 2010, which was upgraded to 18.5 MW in 2015. The company also has a pellet manufacturing plant with a capacity of 6,00,000 TPA and an iron ore fines beneficiation plant with an annual capacity of 6,00,000 TPA, which were commissioned in 2011 and 2013, respectively. Over the last couple of years, the company has primarily been a steel manufacturer with revenue contribution of around 90% from steel.

Key financial indicators

JCL	FY2020	FY2021	FY2022
Operating income (Rs. crore)	562.0	624.2	955.0
PAT (Rs. crore)	313.8	94.1	148.2
OPBDIT/OI	9.0%	21.0%	24.5%
PAT/OI	55.8%	15.1%	15.5%
Total outside liabilities/Tangible net worth (times)	2.4	0.9	0.3
Total debt/OPBDIT (times)	1.6	0.4	0.0
Interest coverage (times)	5.8	11.2	90.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating in	Date & Rating			
						FY2022		FY2021	FY2020
					Sep 06, 2022	Dec 15, 2021	Dec 07, 2021	-	-
1	Proposed – Fund Based – Cash Credit	Long-term	50.00	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Unallocated	Short-term	0.00	NA	-	[ICRA]A3+	[ICRA]A3+	-	-
3	Proposed – Bank Guarantee	Short-term	50.00	NA	[ICRA]A2	[ICRA]A3+	-	-	-
4	Unallocated	Long-term	0.00	NA	-	[ICRA]BBB (Stable)	-	-	-

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed Long term – Fund Based – Cash Credit	Simple
Proposed Short Term – Bank Guarantee	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	Proposed Long-Term Fund based – CC	NA	NA	NA	50.00	[ICRA]BBB+(Stable)
NA	Proposed Short-Term Bank Guarantee	NA	NA	NA	50.00	[ICRA]A2

Source: *Company*

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

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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