February 13, 2024

Janki Corp Limited: Ratings upgraded to [ICRA]A-(Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	48.90	48.90	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short-term – Unallocated	51.10	51.10	[ICRA]A2+; upgraded from [ICRA]A2
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade takes into consideration the sustained healthy profitability and cash accruals registered by Janki Corp Limited (JCL) along with comfortable liquidity position, which is likely to continue in the near-to-medium term. Also, the company's overall financial performance in FY2023 improved further, supported by increased sales volume, improved operational efficiency, favourable market conditions and steady realisations. ICRA believes that the company's healthy cash accruals would continue to support its financial risk profile as characterised by comfortable capital structure and debt coverage metrics. The company registered a 15.5% growth in its top line in FY2023 on the back of increased sales volume as well as steady realisation. High sales volume of pellets and increase in job work rate in the textiles division supported the company in generating higher operating income in 9M FY2024 along with adequate profit margin and healthy cash accruals. ICRA notes that the company is undertaking a fresh debt-funded capex to enhance its sponge iron capacity, which is scheduled to be commissioned within FY2026. While the capex is partly funded by fresh term loans, the company's debt protection metrics are likely to remain comfortable in FY2024 and FY2025 with no major repayment obligations due till FY2026. Post completion of the project, the entire pellet produced by the company will be utilised internally for sponge iron from FY2026, which will improve its operating as well as financial performance, as per ICRA's estimates. 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. Additionally, 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, however, are constrained by the execution risks as the expansion capex is under the construction phase. It is noted that the project is scheduled to be commissioned by July 1, 2025, its date of commercial operation (COD). Successful commissioning of the project without any major time/cost overrun and stabilisation of the same would be key monitorable. The ratings remain constrained 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 sponge iron realisation, the profitability of the company would moderate in FY2024. However, the company's cash accruals are estimated to remain healthy, considering a favourable cost structure and high operational efficiency. The company's margins remain susceptible to the volatility in raw material prices and foreign exchange rates. The ratings are impacted by the highly commoditised and fragmented nature of the secondary steel industry, resulting in intense competition, 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 long-term rating reflects ICRA's opinion that JCL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that JCL's incremental capex to further expand the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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 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. Post commissioning of the ongoing capex in FY2026, sponge iron capacity and power generation capacity of JCL will increase to 4,10,000 MTPA and 53.5 MW, respectively.

Strong operating and financial performances – The company reported revenue of Rs. 932.8 crore in 9M FY2024, reflecting a 15.3% YoY growth, led by an increased sales volume of sponge iron and pellet (although with moderate realisation of sponge iron) generating healthy cash accruals. JCL's operating profit margin (OPM) remained healthy at 18.6% in FY2023 due to its operational efficiency, despite fall in steel prices in the domestic market and rise in raw material costs, especially coking coal. ICRA expects some moderation in the company's profitability and cash accruals in FY2024 on account of a further price correction of sponge iron in the domestic market although with stability in raw material costs. Additionally, textile processing business, which contributes 10-15% to the company's total revenue, would continue to support the company's profitability in the future. ICRA notes that the profitability of the textile division has increased since FY2023 post upgradation of most of the machines and a rise in job rate.

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 adequate margins), which translated into healthy coverage indicators. Going forward, while the company is undertaking a fresh debt-funded capex, which is partly funded by term loans of Rs. 150.0 crore, its debt protection metrics would remain comfortable in FY2024 and FY2025 with no major repayment obligations. ICRA believes that fund-based working capital limit of Rs. 48.9 crore provides additional comfort to the company's liquidity and operations.

Proximity to 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

Exposed to execution risks as project is under construction stage – The company is undertaking capex for business expansion, which is under construction phase and is thus exposed to execution risks. It is noted that the project is scheduled to be commissioned by its commercial operation date (COD) of July 1, 2025 and around Rs. 110 crore has already been spent in 10M FY2024 from the company's own funds. Successful commissioning of the project without any major time/cost overrun and stabilisation of the same would be key monitorable.

Exposed to volatility in profits, given the 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 change 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. 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 a part of the increase in raw material prices to its customers, particularly in FY2023 and 9M FY2024, as reflected in stable contribution of sponge iron. Besides, the entire non-coking coal requirement of the company is met through imports, which expose its profit margins to risks arising from volatility in foreign exchange rates.

Highly commoditised and fragmented nature of secondary steel industry – The company operates mainly in sponge iron industry without any backward and forward integration, which is a highly commoditised industry with raw material and power cost accounting for around 65% 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 limits the pricing flexibility, which ultimately restricts the scope for an improvement in profitability.

Exposed 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 cash flow from operations of Rs. 100.8 crore in FY2023. As per ICRA's estimates, the company's cash accruals are likely to remain healthy in FY2024, though with some moderation. While the company is undertaking a capex of Rs. 375 crore in FY2024 and FY2025 with debt to equity ratio of 40:60, net cash accruals and the existing fund-based working capital limit of Rs. 48.9 crore would continue to provide comfort to the company's liquidity and operations. Further, the company does not have any major repayment obligation in FY2024/FY2025 with repayment of the fresh term loan starting in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade JCL's ratings if the company can significantly increase its revenue while maintaining healthy profitability along with comfortable liquidity and debt protection metrics on a sustained basis.

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. Specific credit metric that might trigger ratings downgrade include Total Debt/OPBIDTA of more than 2.3 times as on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in Iron & Steel Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

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 current 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 the steel division.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	955.0	1,103.3
PAT	145.9	126.3
OPBDIT/OI	24.3%	18.6%
PAT/OI	15.3%	11.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	86.1	200.8

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 crore) as on Jan 31, 2024	Date and Rating in FY2024	Date and Rating in				
						FY2023		FY2022		FY2021
					Feb 13, 2024	Feb 22, 2023	Sep 06, 2022	Dec 15, 2021	Dec 07, 2021	-
1	**Fund-based – Cash credit**	Long-term	48.90	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	-	[ICRA]BBB (Stable)	-
2	**Unallocated**	Short-term	51.10	-	[ICRA]A2+	[ICRA]A2	-	[ICRA]A3+	[ICRA]A3+	-
3	**Proposed – Fund-based – Cash credit**	Long-term	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-
4	**Proposed – Bank Guarantee**	Short-term	-	-	-	-	[ICRA]A2	[ICRA]A3+	-	-
5	**Unallocated**	Long-term	-	-	-	-	-	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short-term – Unallocated	Not applicable

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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Cash Credit	NA	NA	NA	48.90	[ICRA]A- (Stable)
NA	Short-term – Unallocated	NA	NA	NA	51.10	[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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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.

For more information, visit www.icra.in

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