August 12, 2024

J.R. Metal Chennai Limited: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

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); upgraded from [ICRA]BBB (Stable)
Letter of credit	115.00	115.00	[ICRA]A2; upgraded from [ICRA]A3+
Term loans	60.00	60.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	**190.00**	**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 upgrade factors in ICRA's expectation of a healthy performance of JRM in FY2025, after a material improvement in FY2024 owing to the significant cost savings brought in by the 25-MW solar power project commissioned in FY2024. The sales volume also witnessed a significant increase (~16%) in FY2024 owing to capacity addition through de-bottlenecking, which is expected to further increase by ~5-6% in FY2025. While TMT realisation has moderated in recent months, there has been a correction in scrap and iron ore prices as well, thus supporting the overall cost structure. Moreover, the commercial operation of the expansion project that would increase the overall capacity to 2.88 lakh MT, along with the incremental addition of the 9-MW solar project is expected to enhance the entity's scale and profits from FY2026 onwards. Consequently, the company's credit metrics are expected to remain healthy in the near to medium term. ICRA also notes the future capex plans of the entity, which are under development. Despite the capex plans, the debt to operating profit ratio will continue to be comfortable.

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 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 capacity enhancement project and the upcoming 9-MW solar plant for captive solar power generation, along with any other large debt-funded capital expenditure which will remain 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 healthy, going forward, which would aid the company in keeping its credit metrics comfortable.

Key rating drivers and their description

Credit strengths

Healthy growth trend in margins to continue – JRM witnessed a healthy growth in its consolidated operating earnings in FY2024, aided by better asset sweating. The revenue growth is expected to be healthy from FY2026 onwards on the back of the ongoing capacity enhancement. A favourable domestic demand of steel products and the structural cost savings from captive solar power are expected to support the company's operating profits, helping to sustain healthy credit metrics.

Sizeable cost savings from captive solar power unit – The captive solar unit has significantly improved the margins to almost 12% in FY2024 from ~8% in FY2023. This 25-MW unit contributed to 27% of JRM's annual power requirement in FY2024, resulting in sizeable structural cost savings for the entity. Another 9-MW solar unit is in the pipeline and is expected to commence in the next fiscal to support the enhanced capacities. The project cost is estimated at ~Rs. 40 crore, funded by a Rs. 20-crore term debt and internal accruals.

Extensive track record of promoters – The J.R. Group has been involved in the manufacturing of rebar and related products since 1990 through Narayan Industries. The extensive experience and established relationships of the promoters with their major customers have helped JRM garner repeat orders, including from Government agencies.

Comfortable capital structure and debt coverage metrics – The company's financial profile is comfortable, marked by a low gearing and healthy coverage indicators. The coverage indicators remained healthy even after the addition of Rs. 55 crore of solar term debt and are expected to remain healthy even with the further capex in pipeline. 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 the sales volumes and overall earnings in the near term.

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 a number of established and small TMT manufacturers. This restricts its pricing flexibility to an extent, making the company's operating margins vulnerable to any fluctuation 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 entity's ongoing capacity enhancement project, along with the second phase of the solar power project, exposes it to execution and stabilisation risk in the near to medium term.

Susceptibility of margins to foreign exchange rate fluctuation risks - JRM's operations are raw-material intensive with raw materials and consumables accounting for over 75% of its operating income (OI) in 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 expected to remain adequate, with free cash and liquid investments of ~Rs. 23.5 crore as on March 31, 2024. The company has LC facility of Rs. 115 crore to fund its raw material procurements, with a utilisation level of ~73% on an average. The company has further sanctioned a Rs. 20-crore loan in the current fiscal for capex funding, reducing the pressure on short-term debt. The repayment obligation also remains modest at ~Rs. 10.5 crore in FY2025 and ~Rs. 15 crore in FY2026 compared to the entity's scale of operations. This, along with adequate drawing power and the 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 demonstrates a significant improvement in its scale and sustained high profitability, resulting in healthy credit metrics and improved liquidity position.

Negative factors – Pressure on the ratings could arise if the liquidity position/credit metrics weaken due to any significant decline in cash accruals or stretched receivables. Further, any debt-funded capex that could also increase the TOL/TNW by more than 1.5 times on a sustained basis can lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
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 the Thiravallur district of Tamil Nadu, with a production capacity of 1,20,000 MTPA (expected to increase to 2,88,000 MTPA with another furnace coming up 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	
	FY2023	FY2024	FY2023	FY2024
Operating income	1,014.6	1,095.6	963.0	1026.1
PAT	53.3	55.5	52.9	53.5
OPBDIT/OI	8.2%	11.8%	8.1%	12.1%
PAT/OI	5.2%	5.1%	5.5%	5.2%
Total outside liabilities/Tangible net worth (times)	1.4	0.8	1.3	0.7
Total debt/OPBDIT (times)	1.8	1.0	1.9	1.0
Interest coverage (times)	16.8	10.9	17.0	9.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				August 12, 2024	May 17, 2023	-	February 28, 2022
1	Cash credit	Long term	15.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Letter of credit	Short term	115.00	[ICRA]A2	[ICRA]A3+	-	[ICRA]A3+
3	Purchase bill discounting	Short term	0.00	-	-	-	[ICRA]A3+
4	Term loans	Long term	60.00	[ICRA]BBB+ (Stable)	[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**	-	8.9%	-	15.00	[ICRA]BBB+ (Stable)
NA	**Letter of credit**	-	-	-	115.00	[ICRA]A2
NA	**Term loans**	Drawn down in FY2023	NA	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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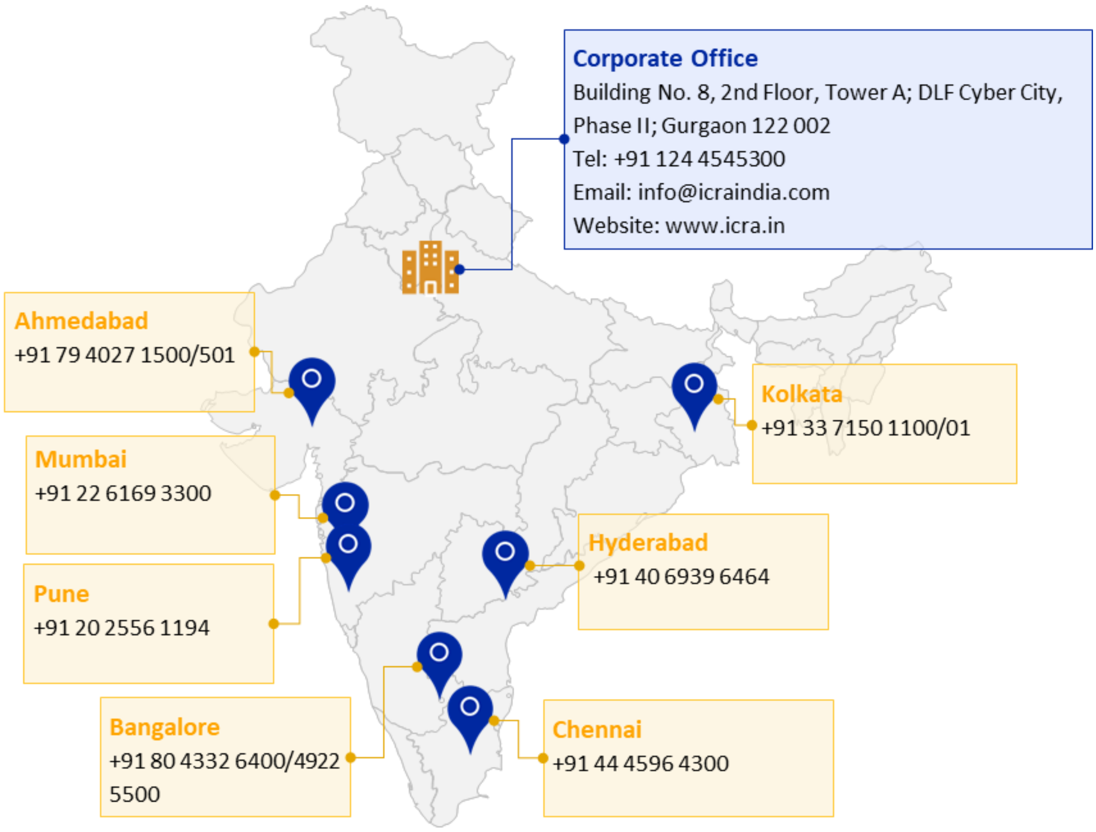

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