February 24, 2023

Jaideep Ispat & Alloys Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	85.00	197.00	[ICRA]A+(Stable); reaffirmed
Long-term – Fund based - Term Loan	120.65	160.65	[ICRA]A+(Stable); reaffirmed
Short-term – Non-fund based	39.00	39.00	[ICRA]A1; reaffirmed
Long-term – Unallocated	0.35	0.35	[ICRA]A+(Stable); reaffirmed
Total	**245.00**	**397.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in Jaideep Ispat & Alloys Private Limited's (JIAPL) comfortable financial risk profile with a healthy cash accrual, conservative capital structure and strong debt coverage metrics. In FY2022, the company reported a significant increase in its top line on the back of capacity addition, resulting in increased sales volume and buoyant sales realisation. However, a significant increase in raw material prices impacted the operating margins to some extent. In FY2023, while margins would remain impacted, the sales volume is expected to be significantly higher compared to the last year. JIAPL's penetration into new markets of Gujarat and Rajasthan would support the overall net profits and cash accruals.

ICRA also considers the long experience of the promoters in the TMT bar manufacturing business and an established market position of JIAPL's brands, Moira Sariya and 24 K, in Madhya Pradesh, supported by a strong distribution network, regular capacity addition and optimum utilisation of the same. The ratings also factor in the successful diversification of the product profile post addition of the wire rod plant operating at high capacity and widening of geographical reach in Gujarat and Rajasthan, which will further strengthen the operating profile and provide revenue visibility.

The ratings, however, are constrained by the cyclicality inherent in the steel business and intense competition in the industry, which makes margins and cash flows vulnerable to fluctuations in prices and demand. The company is also exposed to forex fluctuation risk as a portion of the raw materials is imported, however, the prudent hedging policy adopted by company (80% exposure remains hedged) provides comfort. Lack of vertical integration of operations and absence of captive power plant expose the company's profits to fluctuations in raw material prices and result in lower control over the cost structure. However, availability of power at subsidised rate provides comfort to an extent. ICRA also notes that JAIPL has purchased land in the vicinity of its existing plants and is exploring various opportunities, which might entail debt-funded capex, although the quantum and funding mix have not yet been finalised and would remain under focus.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that JIAPL will be able to improve its penetration in new markets and increase sales volume from the enhanced capacities, which will generate healthy cash flows, going forward.

Key rating drivers and their description

Credit strengths

Robust financial profile with healthy cash accrual, conservative capital structure and strong debt coverage metrics – In FY2022, JIAPL reported a 71% YoY growth in its operating income owing to a healthy improvement in both realisation and volume on the back of the company's enhanced capacity, resulting in healthy cash accruals. However, the margins declined with increased input costs. The financial profile of the company remained comfortable, characterised by a low gearing of 0.26 times and strong debt coverage indicators with an interest coverage of 17.2 times and debt service coverage ratio (DSCR) of 5.7 times in FY2022. In FY2023, while margins would be impacted, the sales volume, however, is expected to be significantly higher compared to the last year, thus supporting the overall net profits and cash accruals. The debt coverage indicators would continue to remain healthy.

Integrated nature of operations; addition of new products and geographies aiding in revenue growth – JIAPL has been able to successfully diversify its product profile with commercial operations of the wire rod plant in September 2020, which has been stabilised and is running at high capacity utilisation in the current fiscal. It has also widened its geographical presence to Gujarat and Rajasthan, which aided in volume growth. The current capacity expansion is likely to support its volumes in the coming years.

Well-established distribution network of dealers, distributors and stockists – The company has a strong distribution network with over 550 dealers, which has enabled strong growth during the last four to five years. Of these 550 dealers, approximately 250 are exclusive dealers, which deal only with the Moira brand. The company also partnered with Ultra-tech Cement across their Ultra-tech Building Solutions (UBS) counters in Madhya Pradesh, Rajasthan and Gujarat.

Established track record of promoters in steel industry – The company's promoters have around three decades of experience in manufacturing ingots, billets, TMT bars and has also started selling wire rods. This has enabled them to establish their brands, Moira Sariya and 24K, in Madhya Pradesh by setting up a strong distribution network. The company has also started selling billets and TMT bars in Gujarat and Rajasthan and has been receiving good response.

Credit challenges

Inherently moderate profitability due to highly commoditised products – Limited value addition, commoditised nature of the offering and price-based competition in the TMT bars industry keep the operating profitability under check. The company's profitability is also vulnerable to volatility in the prices of key raw materials due to the cyclicality associated with the steel industry. However, the risk is mitigated to some extent as the company quotes the price of finished products on the basis of the weighted average cost of raw materials procured.

Lack of backward vertical integration –The company is exposed to price and supply risks due to lack of vertical integration and absence of any captive source of raw material and power, which leads to lesser control over the cost structure. However, availability of power at subsidised rate provides comfort to an extent.

Exposed to cyclicality in the steel industry and forex risks – The steel industry is cyclical and intensely competitive, which make its margins and cash flows vulnerable to fluctuations in prices and demand. The company is also exposed to forex fluctuation risk as a portion of the raw materials is imported, however, the prudent hedging policy adopted by company (80% exposure remains hedged) provides comfort.

Liquidity position: Adequate

JIAPL's liquidity position remains **adequate** with strong cash accruals of over ~Rs. 100 crore from business operations in FY2023 along with unutilised working capital borrowing of Rs. 40.8 crore and cash and liquid investments of Rs. 3.7 crore as of December 2022. Moreover, it has healthy cash flow from operations, sufficient to cover its debt repayment obligations.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if JAIPL is able to improve the profitability level, leading to a further strengthening of the credit metrics. Specific credit metrics that may lead to ratings upgrade include total debt/OPBIDTA remaining below 1.5 times on a consistent basis.

Negative factors – ICRA may downgrade JIAPL's ratings if weakening of the steel industry adversely impacts the company's revenues and cash accruals on a sustained basis. A decline in the interest coverage ratio below 7.0 times on a consistent basis may also trigger ratings downgrade.

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	Standalone

About the company

JIAPL manufactures billets, TMT bars and wire rods from its plant located in Pithampur (Madhya Pradesh). The company, along with its manufacturing facilities, was taken over by the Singhania and Todi families in 2006. It has a manufacturing capacity of 6,50,000 metric tonnes per annum (MTPA) for billets and 6,00,000 MTPA for TMT bars/ wire rods. The company uses a mix of scrap and sponge iron to manufacture billets and TMT bars/ wire rods. JIAPL sells its products under the brand name, Moira Sariya and 24K, through a network of distributors in Madhya Pradesh.

Key financial indicators

JIAPL (Standalone)	FY2021 (Audited)	FY2022 (Audited)	9MFY2023 (Provisional)
Operating income	1,305.9	2,231.5	2,012.7
PAT	89.7	100.1	53.9
OPBDIT/OI	11.8%	6.9%	4.5%
PAT/OI	6.9%	4.5%	2.7%
Total outside liabilities/Tangible net worth (times)	0.6x	0.5x	0.7x
Total debt/OPBDIT (times)	0.7x	0.8x	2.0x
Interest coverage (times)	18.6x	17.2x	10.1x

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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 24, 2023	Nov 26, 2021	Dec 31, 2020	Sep 30, 2019
1	**Fund based - Cash Credit**	Long term	197.00	155.14	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A(Stable)**	**[ICRA]A-(Stable)**
2	**Fund based-Term Loan**	Long term	160.65	84.37	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A(Stable)**	**[ICRA]A-(Stable)**
3	**Non-fund based**	short term	39.00		**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**
4	**Unallocated**	Long term	0.35		**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A(Stable)**	**[ICRA]A-(Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short-term Non fund-based	Very simple
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 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	Fund based - Cash Credit	NA	NA		197.00	[ICRA]A+(Stable)
NA	Fund based-Term Loan	April 2017	NA	FY2028	160.65	[ICRA]A+(Stable)
NA	Non-fund based	NA	NA		39.00	[ICRA]A1
NA	Unallocated	NA	NA		0.35	[ICRA]A+(Stable)

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.

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