August 19, 2019

J.R. Metal Chennai Limited: Long-term rating upgraded to [ICRA]BBB-(Stable); short-term rating upgraded to [ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based facilities	5.00	5.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+(Stable)
Long-term, Unallocated	10.00	5.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+(Stable)
Short-term, Non-fund based facilities	29.00	29.00	[ICRA]A3; upgraded from [ICRA]A4+
Short-term, Fund-based facilities	0.00	5.00	[ICRA]A3; upgraded from [ICRA]A4+
Total	**44.00**	**44.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade favourably factors in J. R. Metal Chennai Limited's (JRM) healthy financial profile characterised by healthy improvement in its scale of operations and low reliance on fund-based external borrowing, resulting in healthy debt protection metrics. The upgrade in ratings notes the gradual improvement in the company's operational profile marked by sustained capacity addition, declining reliance on external billet procurement, commencement of hot charging facility among others. The ratings take into consideration JRM's healthy revenue growth over the last two fiscals (FY2018 and FY2019), supported by growth in volume and realisation on account of improved demand. This was driven by higher domestic consumption of steel and repeat orders from its reputed clientele comprising large players in the construction/real estate sector. The company's operating income (OI) and profitability are likely to decline in H1 FY2020 owing to a steep decline in steel prices. Nonetheless, its long-term growth prospects will likely remain favourable, driven by demand revival in the construction sector and the Government's push for infrastructure spending.

However, the ratings are constrained by the intense competition in the fragmented and commoditised TMT bars segment, which limits its pricing flexibility and exposes the company to fluctuations in raw material prices and forex rates, especially in absence of any hedging strategy. JRM's business remains vulnerable to the inherent cyclicality in the real estate and steel sectors, which is likely to keep its cash flows volatile. The ratings are constrained by the company's limited buffer availability in fund-based and non-fund based limits, which restricts its financial flexibility. Further, the ratings are constrained by the project execution risk and the funding risk associated with the new capex of Rs. 100 crore to be incurred over FY2020-FY2021. The upgrade in ratings is based on ICRA's expectation that the proposed capex will be mainly funded by promoters' funds and internal accruals (~75% of project cost). Any higher-than-expected debt levels might exert pressure on its ratings.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that JRM will benefit from its established customer base and the extensive experience of its promoters in manufacturing of TMT bars and long products. The outlook may be revised to Positive if the company is able to improve its profitability indicators from the current level and improve its liquidity profile as well. Conversely, going forward, the outlook may be revised to Negative if the company's debt level is higher than expected on account of any variation in debt-equity mix (1:3) in the proposed sponge iron project. The outlook may be changed to Negative if weak profitability and working capital metrics worsen its liquidity profile.

Key rating drivers

Credit strengths

Vast track record of promoters – The J. R. Group is involved in manufacturing of rebar and related products since 1990 through Narayan Industries. The extensive experience and the established relationship of the promoters with their major customers have supported JRM to garner repeat orders.

Healthy growth in capacity and scale of operation; partial backward integration into manufacturing of billets – The company increased its manufacturing capacity for billets and TMT in FY2019. The production volume increased by 38% for billets and 11% for TMT in the FY2019. Moreover, higher price realisation, improved demand driven by higher domestic consumption of steel and repeat orders from its reputed clientele during the period resulted in strong revenue growth in FY2018 (by 60%) and FY2019 (by 18%). The increased captive production of billets reduces its reliance on external procurement of billets. This offers some relief in raw material prices for the company, thereby resulting in an improved operating margin. Additionally, JRM has installed a hot charging facility in its rolling mills division, which is expected to reduce power expenditure on reheating (by 85-90%).

Financial profile characterised by comfortable coverage metrics – In FY2018, the company closed the term loans availed previously for capacity improvement. The low debt levels and improved net worth, aided by healthy accruals over the years, resulted in a comfotable capital structure with gearing at 0.1 times and interest coverage of 13.7 times as on March 31, 2019.

Credit challenges

Intense competition in TMT market – JRM, operating in a highly fragmented industry, is exposed to intense competition from a number of established and small TMT manufacturers. This restricts pricing flexibility to an extent making the company's operating margins vulnerable to fluctuation in raw material prices.

High utilisation of bank limits – The company's non-fund based limit utilisation has been high, over the sanctioned limits, in the beginning of FY2019. However, the same was being backed by 100% cash margin held as deposits. Lower limits availed relative to the scale of operations and high encumbered cash held as margin deposit result in reduced financial flexibility. However, going forward, it plans to propose for interchangeability between fund-based and non-fund based limits, which is expected to ease the liquidity position.

Susceptibility of margins to foreign exchange rate fluctuation risks – JRM's operations are raw material intensive with raw materials and consumables consumption accounting to over 75% of its operating income (OI) over the last four fiscals. It imports a predominant share of the total scrap through international suppliers, which exposes the company to fluctuations in exchange rates.

Project execution and funding risks associated with the capex plan – The company has planned a major capital expenditure to be executed in three phases. The capex plan involves backward integration into manufacturing of sponge iron. The first phase of the project is expected to cost Rs. 100 crore. At present, it has proposed that 75% of the project value will be funded through equity infusion and internal accruals and a maximum of 25% will be funded through external term loans.

Liquidity position

JRM had closed all term loans on its books as on March 31, 2019. The company has planned capex for Rs. 100 crore in FY2020-2021. Of the overall project value, 25% is expected to be funded through external term loans. This is likely to increase the company's repayment obligation from FY2021 onwards. However, ICRA does not foresee any major concerns on its liquidity as JRM is expected to have healthy cash accrual through stable operating profits.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metal Industry
Parent/Group Support	NA
Consolidation / Standalone	The ratings are based on standalone financial profile of the company.

About the company

JRM, established in 2008 is the flagship company of the J. R. Group of companies founded by Mr. Ramchander Singh, the Group Chairman. JRM is involved in manufacturing thermo mechanically treated (TMT) bars and operates the manufacturing facility in Thiravallur district, Tamil Nadu with a production capacity of 600 MT/day. JRM has backward integrated into manufacturing mild steel (MS) billets with a capacity of 450 MT/day. It markets the TMT bars under the brand name JRTMT, which is certified under ISI.

The J. R. Group is involved in manufacturing rebar and related products since 1990 through Narayan Industries. The Group, at present, has footprints in various areas such as manufacture and trading of steel and steel products, warehousing and logistics and wind power generation. Its day-to-day operations are handled by the Managing Director, Mr. Narayan Singh.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	242.1	384.5
PAT (Rs. crore)	1.9	6.1
OPBDIT/OI (%)	3.1%	3.5%
RoCE (%)	8.6%	16.4%
Total Debt/TNW (times)	0.2	0.2
Total Debt/OPBDIT (times)	1.8	0.8
Interest Coverage (times)	2.4	5.2

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug 2019	Date & Rating in FY2019 Apr 2018	Date &Ratingin FY2018 -	Date & Rating in FY2017 Feb 2017	Sept 2016
1	Fund Based	Long Term	5.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
2	Unallocated Limits	Long Term	5.00	-	[ICRA]BBB-	[ICRA]BB+ (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
3	Non-Fund Based	Short Term	29.00	-	[ICRA]A3	[ICRA]A4+;	-	[ICRA]A4	[ICRA]A4
4	Fund Based	Short Term	5.00	-	[ICRA]A3	-	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit facilities	-	NA	-	5.00	**[ICRA]BBB- (Stable)**
NA	Unallocated	-	NA	-	5.00	**[ICRA]BBB- (Stable)**
NA	Letter of Credit	-	NA	-	29.00	**[ICRA]A3**
NA	Bill Purchase	-	NA	-	5.00	**[ICRA]A3**

Source: J.R. Metal Chennai Limited

ANALYST CONTACTS

Ravichandran K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Rathina Pradeep R
+91 44 4297 4307
rathina.r@icraindia.com

Vinotha Krishnan
+91 44 4297 4315
vinotha.krishnan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999