

Press Release

KEJ Minerals Private Limited (KMPL)

26 July, 2017



Rating Downgraded

Total Bank Facilities Rated*	Rs.31.00 Cr (Enhanced from Rs. 16.00 Cr)
Long Term Rating	SMERA BB /Stable (Downgraded from SMERA BB+/Negative and Outlook Revised)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has downgraded the long term rating to '**SMERA BB**' (read as SMERA double B) from '**SMERA BB+**' (read as SMERA double B plus) and reaffirmed the short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 16.00 crore bank facilities of KEJ Minerals Private Limited (KEJ).

Further, SMERA has assigned the ratings of (**SMERA BB/Stable/SMERA A4+**) on the Rs. 15.00 crore bank facilities of KEJ Minerals Private Limited. The outlook is revised to '**Stable**' from '**Negative**'.

The downgrade is in view of elongation in working capital cycle and moderation in scale of operations and profitability. The outlook is revised as SMERA believes that KMPL will be able to maintain its business and financial risk profile over the medium term.

Kej Minerals Private Limited (KEJ), incorporated in 2008 is a Karnataka-based company promoted by Mr. N Kejriwal. The company is engaged in iron ore processing and has set up a beneficiation plant at Bellary, Karnataka. The process includes resizing, washing and beneficiation.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced Management: KEJ was incorporated in 2008 by Mr. N Kejriwal, Managing Director. Mr Kejriwal possesses more than three decades of experience in the industry.

Moderate Financial risk profile: The financial risk profile remains moderate marked by high gearing of 2.73 times as on 31 March, 2017 (Provisional). The interest coverage ratio (ICR) is healthy at 3.46 times for FY2016-17 (Provisional). The tangible net worth stood at Rs. 10.08 crore as on 31 March, 2017 as against Rs. 9.20 crore as on 31 March, 2016. The ROCE is moderate at 9.13 per cent for FY2016-17. The TOL/TNW is high at 3.28 times for FY2016-17 as against 2.04 times for FY2015-16. The net cash accruals are healthy at Rs. 2.25 crore for FY2016-17 as against Rs.1.43 crore for FY2015-16.

Improvement in margins: The operating margins improved to 9.50 per cent in FY2017 (Provisional) from 7.29 per cent in FY2016 on account of decrease in raw material and employee cost. The PAT margins improved to 2.06 percent in FY2017 (Provisional) from 1.73 per cent in FY2016 due to decrease in interest cost.

Weaknesses

Working capital intensive operations: The operations are working capital intensive marked by high GCA days of 255 days for FY2016-17 (Provisional) as against 203 days for FY2015-16. The working capital cycle has deteriorated from 156 days in FY2015-16 to 211 days in FY2016-17 on account of high inventory days of 137 in FY2017 as against 92 days for FY2016. The debtor days are also high at 88 days for FY2017 as against 64 days for FY2016.

Uneven revenues: The revenues are uneven at Rs. 42.49 crore for FY2016-17 as against Rs. 36.39 crore in FY2015-16 and Rs. 76.71 crore in FY2014-15 owing to fluctuations in prices of raw materials (iron ore) and negative industry sentiments.

Susceptible to volatility in raw material prices: The profitability is susceptible to volatility in raw material prices (iron), changes in government policies and clearances. Any adverse change in the prices of iron ore is expected to affect profitability.

Analytical approach: Standalone business and financial risk profile of the company

Applicable Criteria

- Manufacturing Entities : <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that KEJ will maintain a stable outlook in the medium term owing to its established operations and extensive experience of the promoter. The outlook may be revised to 'Positive' in case of significant improvement in the scale of operations and accruals, while maintaining debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability and working capital cycle.

About the rated entity - Key financials.

For FY2016-17 (Provisional), KEJ reported PAT of Rs. 0.88 crore on operating income of Rs.42.49 crore as compared with PAT of Rs.0.63 crore on operating income of Rs.36.39 crore for FY2015-16. The company's net worth stood at Rs.10.08 crore as on 31 March, 2017 compared to Rs. 9.20 crore a year earlier.

Status of non-cooperation with previous CRA: None

Any other information: None

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-April-2016	Cash Credit	Long Term	10.00	SMERA BB+ / Negative (Rating Reaffirmed and Outlook Revised)
	Fund based (Proposed)	Long Term	5.85	SMERA BB+ / Negative (Rating Reaffirmed and Outlook Revised)
	Bank Guarantee	Short Term	0.15	SMERA A4+ (Reaffirmed)
06-April-2015	Cash Credit	Long Term	4.00	SMERA BB+ / Stable (Assigned)
	Proposed Cash Credit	Long Term	11.85	SMERA BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	0.15	SMERA A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	10.00	SMERA BB/Stable (Rating downgraded and Outlook Revised)
Bill Discounting	NA	NA	NA	15.00	SMERA A4+ (Assigned)
Term Loan I	NA	NA	01/04/2020	1.21	SMERA BB/Stable (Assigned)
Term Loan II	NA	NA	05/04/2020	1.86	SMERA BB/Stable (Assigned)
Term Loan III	NA	NA	01/04/2020	1.89	SMERA BB/Stable (Assigned)
Term Loan IV	NA	NA	31/01/2018	0.07	SMERA BB/Stable (Assigned)
Proposed term loan	NA	NA	NA	0.82	SMERA BB/Stable (Assigned)
Bank Guarantee	NA	NA	NA	0.15	SMERA A4+ (Reaffirmed)

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ABOUT SMERA

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