J. S. S. Steelitalia Limited: Downgraded

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	10.00	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)
Letter of Credit	5.00	SMERA A4+ (Reaffirmed)
Proposed Cash Credit	5.00	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)

SMERA has downgraded the rating on the Rs.15.00 crore long term (fund based) bank facility of J. S. S. Steelitalia Limited (JSSSL) to **'SMERA BB-' (read as SMERA double B minus)** from 'SMERA BB' (read as SMERA double B) and reaffirmed the Rs.5.00 crore short term (non-fund based) facility at **'SMERA A4+ (read as SMERA A four plus)'**. The outlook continues to remain **'Stable'**.

The rating downgrade reflects decline in profitability profile, weak debt protection metrics and stretched liquidity profile. The ratings continue to be constrained by the company's working capital intensive business, exposure to intense competition and geographical concentration risk. However, the ratings are supported by the experienced management and healthy capital structure.

Update

JSSSL undertakes manufacturing of stainless steel tubes and pipes at Gurgaon. For FY2015-16 (refers to financial year, April 01 to March 31), the company reported net loss of Rs.3.51 crore on operating income of Rs.136.39 crore against profit after tax (PAT) of Rs.0.06 crore on operating income of Rs.113.03 crore during the previous year. The deterioration in profitability is driven by decline in key raw material i.e. nickel by over 37 per cent due to absence of order-backed inventory procurement policy. The company's negative profitability profile resulted in weak debt protection metrics evident from interest coverage ratio of (0.08) times in FY2015-16 against 1.83 times during the previous year. The NCA/TD stood at (0.03) times against 0.12 times in FY2014-15. SMERA also notes the stretched liquidity profile evident from the full utilisation of fund based working capital limit.

The company's operations continue to remain working capital intensive marked by gross current assets of 142 days in FY2015-16. The high GCA days emanate from the inventory holding and collection period of 57 days each in FY2015-16 against 64 days and 58 days, respectively during 2014-15. JSSSL's operations are based out of north India. The company is also exposed to intense competition in the steel manufacturing and trading industry.

However, the company benefits from its experienced management. Mr. Mauro Mozzato, Director, has more than two decades of experience in the said line of business. JSSSL has healthy capital structure evident from the moderate leverage (debt-equity ratio) of 0.55 times in FY2015-16 (refers to financial year, April 01 to March 31) against 0.51 times in FY2014-15. The company's total debt of Rs.30.47 crore (as on March 31, 2016) includes compulsory convertible debentures of Rs.13.40 crore, to be converted to equity by 2021. SMERA has treated such compulsory convertible debentures as quasi equity.

Outlook: Stable

SMERA believes JSSSL will maintain a Stable outlook in the medium term owing to the established operations and extensive experience of the promoters in the business. The outlook may be revised to 'Positive' in case of improvement in revenue and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of large debt funded capital expansion, lengthening of working capital cycle, or continuation of losses.

Rating Sensitivity Factors

- Sustainable improvement in operating income and profitability profile
- Efficient working capital management
- Large debt funded capital expansion

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

The Haryana-based, JSSSL is a joint venture between Inox, Jindal Stainless Steelway Limited and Jensita Holding Limited. The company undertakes manufacturing of stainless steel tubes and pipes at its facility at Gurgaon.

For FY2015-16, JSSSL reported net loss of Rs.3.51 crore on operating income of Rs.136.39 crore as compared with (profit after tax) PAT of Rs.0.06 crore on operating income of Rs.113.03 crore for FY2014-15. The company's net worth stands at Rs.30.93 crore as on March 31, 2016 as compared with Rs.34.44 crore a year earlier.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings	Rating/Outlook
			Long Term	
17 August, 2015	Cash Credit	10.00	SMERA BB (Assigned)	Stable
	Letter of Credit	5.00	SMERA A4+ (Assigned)	-
	Proposed Cash Credit	5.00	SMERA BB (Assigned)	Stable

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ABOUT SMERA

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