

Press Release

Jai Durga Iron Private Limited

July 25, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 15.69 Cr.
Long Term Rating	ACUITE BB /Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has re-affirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 15.69 Cr. bank facilities of Jai Durga Iron Private Limited (JDPL). The outlook is '**Stable**'.

Incorporated in 2003, JDPL is engaged in manufacturing of sponge iron and mild steel ingots based at Jhumri Teliya (Jharkhand). JDPL has manufacturing units with an installed capacity of 48000 MTPA for sponge Iron and 16500 MTPA for mild steel ingots. The company is promoted by Mr. Binod Kumar Bajaj and Mr. Krishna Kumar Agarwal. Currently, the business is managed by the promoters and the second generation of the Bajaj and Agarwal family.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of JDPL to arrive at the rating.

Key Rating Drivers

Strengths

• **Experienced management**

JDPL has a track record of more than a decade in manufacturing of sponge iron and mild steel ingots. The promoters, Mr. Binod Kumar Bajaj and Mr. Krishna Kumar Agarwal have nearly four decades of experience in iron and steel industry. The long experience of the management has helped the company to establish comfortable relationships with its key suppliers and customers.

• **Improvement in operating income**

During FY2019 (provisional), JDPL has achieved revenues of ~Rs.76.70 crore as compared to revenues of Rs.50.05 crore in FY2018, thereby registering a y-o-y growth of 53 per cent. The growth in top line is on account of better realisation of sponge iron and ingots and volume growth.

• **Moderate financial risk profile**

JDPL's moderate financial risk profile is marked by moderate network, comfortable gearing, and healthy debt protection metrics. The network of the company stood at Rs.24.69 crore in FY19 (Provisional) as against Rs.25.15 crore in FY18. The gearing stood comfortable at 0.48 times in FY19 (Provisional) as against 0.56 times in FY18. Total debt of Rs.11.90 crore as on 31 March, 2019 (Provisional) consists of Rs.11.15 crore of working capital borrowings and Rs.0.75 crore of unsecured loans from promoters and Directors. The debt protection metrics stood moderate with interest coverage and debt service coverage ratios of 2.28 times and 2.11 times in FY2019 (Provisional) as compared to 1.75 times and 1.91 times in FY2018, respectively.

Weaknesses

• **Decline in operating profitability**

The EBITDA margins have shown a declining trend from 10.71 per cent in FY2017 to 7.29 per cent in FY2018. Further, EBITDA margin fell to 4.95 per cent in FY2019 (Provisional) on account of higher raw material costs which could not be passed onto their customers. Acuite believes that the company's ability to sustain its profitability will be a key rating sensitivity.

• Working capital intensive nature of operations

JDPL being in steel industry inherently has working capital intensive nature of operations marked by Gross Current Asset (GCA) of 171 days in FY 19 (Provisional) though it has improved from 294 days in FY 18. The high GCA days is mainly on account of high inventory holding period of iron ore and coal of 142 days in FY 19 (Provisional). JDPL maintains high inventory of iron and coal in order to mitigate the price fluctuations. The debtor days stood at 31 days in FY 19 (Provisional) as compared to 7 days in FY 18 due to slow collection from its customers. The utilisation of its working capital limit has remained stretched at 98 per cent during the twelve months ended May 2019.

Liquidity Profile

The company's liquidity is adequate marked by modest net cash accruals of Rs. 1.89 crore in FY 2019 (Provisional) against no long term debt obligations. The company has high working capital cycle marked by GCA days of 171 in FY 19 (Provisional) and the cash credit utilisation is about 98 per cent during the twelve months ended May 2019. Current ratio stood at 1.70 times FY 19 (Provisional). Acuite believes that the liquidity is expected to be at similar levels in the absence of any major debt funded capex and working capital intensive operations.

Outlook: Stable

Acuite believes that JDPL will maintain a 'Stable' profile over medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers more than expected growth in revenues while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of dip in revenue, deterioration in financial risk profile on account of any major debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	76.70	50.05	34.93
EBITDA	Rs. Cr.	3.8	3.65	3.74
PAT	Rs. Cr.	0.84	0.92	0.54
EBITDA Margin	(%)	4.95	7.29	10.71
PAT Margin	(%)	1.1	1.84	1.55
ROCE	(%)	7.18	6.57	6.88
Total Debt/Tangible Net Worth	Times	0.48	0.56	0.62
PBDIT/Interest	Times	2.28	1.75	1.61
Total Debt/PBDIT	Times	3.05	3.78	3.89
Gross Current Assets (Days)	Days	171	294	438

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated December 10, 2018 had denoted the rating of Jai Durga Iron Private Limited as 'CRISIL BB-/CRISIL A4+; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jun-2019	Cash Credit	Long Term	12.00	ACUITE BB/ Stable (Issuer not co-operating*)
	Stand By Line of Credit	Short Term	1.20	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	2.25	ACUITE A4+ (Issuer not co-operating*)
	Derivative Exposure	Short Term	0.24	ACUITE A4+ (Issuer not co-operating*)
16-Mar-2018	Cash Credit	Long Term	12.00	ACUITE BB/ Stable (Reaffirmed)
	Stand By Line of Credit	Short Term	1.20	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	2.25	ACUITE A4+ (Reaffirmed)
	Derivative Exposure	Short Term	0.24	ACUITE A4+ (Reaffirmed)
13-Oct-2016	Cash Credit	Long Term	12.00	ACUITE BB/ Stable (Reaffirmed)
	Stand By Line of Credit	Short Term	1.20	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	2.25	ACUITE A4+ (Reaffirmed)
	Derivative Exposure	Short Term	0.24	ACUITE A4+ (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB /Stable (Reaffirmed)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	1.44	ACUITE BB /Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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