

## Press Release

### K.J. Steel Rolling Mills (KJSRM)

18 August, 2017

### Ratings Revised



<b>Total Bank Facilities Rated*</b>	Rs.20.00 Crore
<b>Long Term Rating</b>	SMERA BBB-/Stable (Revised from SMERA BB/Stable)

*\*Refer Annexure for details*

### Rating Rationale

SMERA has revised the long-term rating to '**SMERA BBB-**' (read as **SMERA triple B minus**) from '**SMERA BB**' (read as **SMERA double B**) on the Rs.20.00 crore bank facilities of K. J. Steel Rolling Mills (KJSRM). The outlook continues to be '**Stable**'.

**Analytical approach:** During the previous rating exercise conducted in September, 2016, SMERA had taken a standalone view of the financial risk profile of KJSRM since there was as there was limited insight into the business and financials of the other related/group entities. Moreover, SMERA did not have adequate clarity on the nature of linkages between the entities within the group. Subsequently, SMERA has received the financial statements of the group entities and has observed significant business and financial linkages. SMERA has thus taken a consolidated view of the business and financial risk profiles of K J International (rated SMERA BBB-/Stable), K J Steel Rolling Mills, Arora Iron & Steel Rolling Mills, Jyoti Industries (Unit II) and Bhawani Shanker Castings Private Limited. The consolidation is in view of the common management, similarities in the lines of business and significant operational and financial synergies. The group is herein referred to as K J Group (KJG). SMERA has also given the standalone financial numbers of the entity for comparative purpose. The change in analytical approach has warranted a revision in the outstanding ratings assigned to the bank facilities of KJSRM.

K. J. Steel Rolling Mills (KJSRM) was established as a partnership firm in January 2004 and is managed and promoted by Mr Pawan Goyal and Mr Pritpal Singh Chawla. The firm is engaged in the manufacturing of flats, bars and spring steel with installed capacity of 7 metric tons per day. The firm purchases raw material from suppliers in Punjab and after manufacturing, sells these to various clients in Punjab, Haryana and Delhi.

### List of key rating drivers and their detailed description

#### Strengths:

**Experienced promoters and long track record of operations:** The group was incorporated in 1992 with the setting up of Bhawani Shankar Castings Private Limited as the primary entity. In 1995, Arora Iron & Steel Rolling Mills was incorporated. The other three entities - Jyoti Industries (Unit II), K J Steel Rolling Mills & K J International were established in 2000, 2004 and 2010 respectively. The promoters have experience of around 25 years in the iron & steel industry.

**Above average financial risk profile:** The financial risk profile of the group is marked by healthy net worth, modest gearing and comfortable debt protection measures. The net worth levels of the group stood at around Rs.159.29 crore on 31 March, 2017 (Provisional) as against Rs.126.70 crore on 31 March, 2016. The net worth of the group includes unsecured loans of Rs.71.35 crore as on 31 March, 2017 (Provisional) compared to Rs.71.33 crore in FY2016 from promoters. The same is subordinated to

bank debt and hence SMERA has treated these as quasi equity. The gearing of the group stands moderate at 1.25 times as on 31 March, 2017 (Provisional) compared to 1.40 times as on 31 March, 2016. The moderate gearing is on account of healthy networth of Rs.159.29 crore as against total debt of Rs.199.28 crore in FY2016-17 (Provisional). The total debt includes term loan of Rs. 60.08 crore, unsecured loan of Rs.30.48 crore and cash credit of ~ Rs 98.12 crore. The interest coverage ratio stood modest at 2.13 times in FY2016-17 (Provisional) against 1.68 times in FY2015-16. The net cash accrual by total debt (NCA/TD) stood at 0.17 times in FY2017 (Provisional) compared to 0.12 times in FY2016. The debt to service coverage ratio (DSCR) stood at 1.67 times in FY2017 (Provisional) compared to 1.87 times in FY2016.

**Weaknesses:**

**Inherent cyclicity in the steel industry:** The group's revenue and profitability are susceptible to the inherent cyclicity in the steel industry and volatility in steel prices. Any change in prices may adversely affect margins.

**Intense competition:** Steel is a highly competitive industry due to low entry barriers which results in intense competition from both the organised as well as unorganised players.

**Applicable Criteria**

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

**Outlook: Stable**

SMERA believes that the group will maintain a stable outlook in the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue, profitability or further debt-funded capital expenditure, weakening the financial risk profile.

**About the rated entity – Key Financials**

For FY2017 (Provisional), the firm reported profit after tax (PAT) of Rs.1.69 crore on operating income of Rs.124.55 crore, compared to Rs.1.23 crore on operating income of Rs.136.32 crore in FY2016. The net worth stood at Rs.26.13 crore as on 31 March, 2017 (Provisional) against Rs.14.21 crore a year earlier. The net worth of Rs.26.13 crore in FY2017 includes quasi equity of Rs.20.61 crore.

**About the group**

The group was established in 1992 with the incorporation of Bhawani Shankar Castings Private Limited as the flagship entity. Further, Arora Iron & Steel Rolling Mills was incorporated in 1995. The other three entities Jyoti Industries (Unit II), K J Steel Rolling Mills & K J International were established in 2000, 2004 and 2010 respectively. The group was promoted by Mr. Amarjit Singh Chawla and family with experience of over two decades in the iron and steel industry. The group is engaged in the manufacturing of alloy steel flats/bars.

K J International (KJI), established in 2010 is a Jalandhar-based partnership concern promoted and managed by Mr. Sahil Goyal, Mr. Ramanpreet Singh Chawla and Mr. Gaganjot Singh Chawla. The firm is

engaged in the manufacturing of alloy steel flats/bars through induction furnace route with an installed capacity of 5 metric ton per day. The products of the firm find application in the hand tools, automobiles, engineering industries.

K. J. Steel Rolling Mills (KJSRM) was established as a partnership firm in January 2004. Mr Pawan Goyal and Mr Pritpal Singh Chawla, the active partners, manage the day-to-day operations of the firm. The firm is engaged in the manufacturing of flats, bars and spring steel. The firm purchases raw material from suppliers in Punjab. The finished products are sold to clients in Punjab, Haryana and Delhi.

For FY2017, (Provisional) the group reported profit after tax (PAT) of Rs.22.51 crore on operating income of Rs.574.54 crore compared with PAT of Rs.9.72 crore on operating income of Rs.509.44 crore in FY2016. The net worth stood at Rs.159.29 crore as on 31 March, 2017 (Provisional) against Rs.126.70 crore a year earlier. The net worth of Rs.159.29 crore in FY2017 includes quasi equity of Rs.71.35 crore.

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:**

Name of Instrument /Facilities	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	20.00	SMERA BBB-/Stable (Revised from SMERA BB/Stable)	14 Sept, 2016	SMERA BB/Stable (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	N.A	N.A	N.A	20.00	SMERA BBB-/Stable (Revised from SMERA BB/Stable)

**Note on complexity levels of the rated instrument:**

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

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**ABOUT SMERA**

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