

Press Release

K.J. Steel Rolling Mills

March 22, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA BBB/Stable (Upgraded from SMERA BBB-/ Stable)

* Refer Annexure for details

Rating Rationale

SMERA has reviewed and upgraded the long term rating of '**SMERA BBB**' (read as **SMERA triple B**) from '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs. 20.00 crore bank facilities of K J Rolling Mills. The outlook is 'Stable'

K. J. Steel Rolling Mills (KJSRM) was formed as a partnership firm in January 2004. Mr Pawan Goyal and Mr Pritpal Singh Chawla are the active partners looking after day-to-day operations of the firm, whereas Mrs. Jyoti Goyal and Mrs. Mohinder Kaur are the silent partners. The firm is engaged in the business of manufacturing of flats, bars and spring steel and has one rolling mill of installed capacity of 8 metric ton per day. The firm purchases raw material from suppliers in Punjab and the finished products are sold to various clients in Punjab, Haryana and Delhi.

Firm belongs to the KJ Group comprising of K.J. International, K. J. Steel Rolling Mills, Arora Iron and Steel Rolling Mills Private Limited, Bhawani Shankar Castings Private Limited and Jyoti Industries.

Key rating drivers

Strengths

Experienced management & Long track of operation

The group was incorporated in 1992 with the incorporation of Bhawani Shankar Castings Private Limited as the primary entity. Further in 1995, Arora Iron & Steel Rolling Mills (Flagship Company) was incorporated. The other three entities Jyoti Industries, K J Steel Rolling Mills & K J International were established in 2000, 2004 and 2010 respectively. The promoters have an experience of over 25 years in the iron & steel industry. The extensive experience of the promoters has helped the group establish healthy relations with its customers. The group has also been able to identify opportunities in backward integration, and has successfully operationalized the new billet manufacturing plant. Group caters to diversified product range which includes manufacturing of billets, steel ingots, alloy steel flats/ bars, spring steel and steel sheets.

Comfortable 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.174.93 crore on 31 March, 2017 as against Rs.126.70 crore on 31 March, 2016. The net worth of the group includes unsecured loans from directors/ promoters and of Rs.88.16 crore as on 31 March, 2017 compared to Rs.71.33 crore in FY2016. The same is subordinated to bank debt and hence SMERA has treated these as quasi equity. The debt-equity ratio of the group stands moderate at 1.03 times as on 31 March, 2017 compared to 1.40 times

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as on 31 March, 2016. The total debt of Rs. 179.93 crore includes term loan of Rs. 70.68 crore, and short term borrowings of Rs 109.26 crore. The interest coverage ratio improved to 2.27 times in FY2016-17 against 1.84 times in FY2015-16. The debt to service coverage ratio (DSCR) stood at 1.69 times in FY2017 compared to 1.87 times in FY2016.

Weakness

Inherent cyclicalities in the steel industry

The group's revenue and profitability are susceptible to the inherent cyclicalities in the steel industry and volatility in steel prices.

Intense competition

Steel is a highly competitive industry due to low entry barriers which results in intense competition from both the organized as well as unorganized players in the industry.

Analytical approach:

While assigning the rating, SMERA has taken into account the consolidated operational and financial performance of K J International, K J Steel Rolling Mills, Arora Iron & Steel Rolling Mills, Jyoti Industries (Unit II) and BhawaniShanker Castings Private Limited. The consolidation is in view of common management, common manufacturing facilities as well as significant operational and financial linkages. The group is herein referred to as KJ Group.

Outlook: Stable

SMERA believes the group will maintain a stable business risk profile in the medium term on account of its experienced management and long track of operation. 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 or profitability or any further debt-funded capital expenditure, weakening the financial risk profile.

About the Rated Entity – Key Financials (Consolidated)

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	637.17	531.06	554.95
EBITDA	Rs. Cr.	51.34	34.78	20.01
PAT	Rs. Cr.	22.55	9.72	8.18
EBITDA Margin	(%)	8.06	6.55	3.61
PAT Margin	(%)	3.54	1.83	1.47
ROCE	(%)	13.70	10.00	16.97
Total Debt/Tangible Net Worth	Times	1.03	1.40	1.18
PBDIT/Interest	Times	2.27	1.84	2.82
Total Debt/PBDIT	Times	3.27	4.67	5.52
Gross Current Assets (Days)	Days	168	185	166

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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

Please refer to rating history.

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18-August-2017	Cash Credit	Long Term	20.00	SMERA BBB-/ Stable (Upgraded)
14-September-2016	Cash Credit	Long Term	20.00	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	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB/ Stable (Upgraded)

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ABOUT SMERA

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