

Press Release

K.J. Steel Rolling Mills (KJSRM)

June 13, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 20.00 crore
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 20.00 crore bank facilities of K.J. STEEL ROLLING MILLS (KJSRM). The outlook is '**Stable**'.

Jalandhar-based, K.J. Steel Rolling Mills (KJSRM) was established as a partnership firm in 2004 by Mr. Pawan Goyal, Mr. Pritpal Singh Chawla, Mrs. Jyoti Goyal and Mrs. Mohinder Kaur. The firm is engaged in the manufacturing all kinds of steel flats, bars and spring steel for automobile industry, hand tools and general engineering industry through induction furnace and rolling mill route.

The firm is a part of KJ Group comprising of K.J. International, K.J. Steel Rolling Mills, Arora Iron & Steel Rolling Mills Private Limited, Bhawani Shankar Castings Private Limited and Jyoti Industries. The group has integrated operations for the manufacturing of rolled-products for automobile industry, hand tools and general engineering industry. Further, the operations are backward integrated with the manufacturing facilities of billets and ingots.

Analytical Approach

Acuité has considered the consolidated view of business and financial risk profiles of the K.J. International, K.J. Steel Rolling Mills, Arora Iron & Steel Rolling Mills Private Limited, Bhawani Shankar Castings Private Limited and Jyoti Industries to arrive at this rating. The consolidation is in view of common management and significant operational as well as financial linkages between the entities. The group is herein referred to as KJ Group.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The group was established in 1992 with the incorporation of Bhawani Shankar Castings Private Limited as the primary entity and further, Arora Iron & Steel Rolling Mills Private Limited was incorporated in 1995. The other entities Jyoti Industries, K.J. Steel Rolling Mills and K.J. International were established in 2000, 2004 and 2010, respectively. The promoters of the group have an experience of over 25 years in the aforementioned industry. Backed by their experience, they have been able to maintain long-term relations with their customers and have also been able to identify and exploit the opportunities in backward integration. The group caters to diversified product range including billets, steel ingots, alloy steel flats/ bars/ round, spring steel and steel sheets. Acuité believes the group will benefit from its experienced management which helps the group in maintaining long standing relations with reputed customers and suppliers.

- **Comfortable financial risk profile**

The group has comfortable financial risk profile marked by comfortable net worth, and debt protection metrics. The net worth of the group stood at Rs. 257.67 crore as on March 31, 2019 (Provisional) as against Rs. 207.92 crore as on March 31, 2018, owing to comfortable accretion to reserves due to healthy profitability. Gearing levels (debt-to-equity) stood at 0.75 times as on March 31, 2019 (Provisional) as against 0.81 times as on March 31, 2018. Further, the interest coverage ratio stood at 3.83 times for FY2019 (Provisional) as compared to 3.05 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 1.45 times as on March 31, 2019 (Provisional) vis-à-vis

1.55 times as on March 31, 2018. Acuite believes that financial risk profile of the group is likely to remain comfortable over the medium term on account of comfortable net worth and debt protection metrics.

- **Moderate working capital management**

The group has moderate working capital operations marked by gross current assets (GCA) of 117 days in FY2019 (Provisional) as compared to 132 days in FY2018. This is on account of debtors' collection period of 64 days in FY2019 (Provisional) as against 78 days in FY2018 and inventory holding period of 38 days in FY2019 (Provisional) as against 31 days in FY2018. The average cash credit utilization for the past six months stood at ~90 percent. Acuite believes that the working capital operations of KJ group will continue to remain moderate on account of level of inventory to be maintained and the credit given to its customers.

Weaknesses

- **Susceptibility to fluctuation in raw material prices and inherent cyclicality in the steel industry**

The group's revenue and profitability are susceptible to the inherent cyclicality in the steel industry and volatility in steel prices resulting from trade tariffs, and exchange rate fluctuations as the group imports scrap steel to be used as raw material for manufacturing of billets.

- **Highly competitive and fragmented nature of industry**

Steel is a highly competitive industry due to low entry barriers that results in intense competition from the large number of organized and unorganized players present in the market. However, the risk is mitigated to an extent on account of established track record of operations.

Liquidity position

The group has comfortable liquidity marked by comfortable net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 49.34 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 9.50 crore for the same period. The cash accruals of the group are estimated to remain around Rs. 61.65 crore to Rs. 94.98 crore during 2020-22 against repayment obligations of around Rs. 9.50 crore. The group's working capital operations are comfortable marked by gross current asset (GCA) days of 117 days for FY2019 (Provisional). The group maintains unencumbered cash and bank balances of Rs. 0.89 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.58 times as on 31 March 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain comfortable over the medium term on account of comfortable cash accrual against moderate debt repayments over the medium term.

Outlook: Stable

Acuite believes that KJ Group will maintain a 'Stable' outlook over the medium term on the back of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1,444.15	1,022.21	637.17
EBITDA	Rs. Cr.	80.83	67.22	51.34
PAT	Rs. Cr.	37.80	25.98	22.55
EBITDA Margin	(%)	5.60	6.58	8.06
PAT Margin	(%)	2.62	2.54	3.54
ROCE	(%)	16.98	15.90	13.70
Total Debt/Tangible Net Worth	Times	0.75	0.81	1.03
PBDIT/Interest	Times	3.83	3.05	2.27
Total Debt/PBDIT	Times	2.37	2.41	3.27
Gross Current Assets (Days)	Days	117	132	168

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
March 22, 2018	Cash Credit	Long-Term	20.00	ACUITE BBB/ Stable (Upgraded)
August 18, 2017	Cash Credit	Long-Term	20.00	ACUITE BBB-/ Stable (Upgraded)
September 14, 2016	Cash Credit	Long-Term	20.00	ACUITE BB/ Stable (Assigned)

***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	20.00	ACUITE BBB/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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