Press Release
K.J. Steel Rolling Mills
March 13, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB- | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE t riple B minus)** from **'ACUITE BB+' (read as ACUITE double B Plus)** on the Rs.20.00 crore bank facilities of K. J. Steel Rolling Mills (KJSRM). The outlook is '**Stable**'.

Rationale for rating

The rating takes into cognizance the augmentation in business risk profile of the group majorly driven by improvement in scale of operations. The group has increased revenues to Rs. 317.99 Cr. in FY2023 as compared to revenues of Rs. 293.65 Cr. in FY2022. The improvement in revenues is majorly on account of increase in average realization during the period. The group has achieved revenue of Rs. 205.83 Cr. as on September 2023(Provisional).

The rating also factors the above average financial position of the group characterized by a improving net worth base and comfortable debt protection metrices. The rating also draws comfort from established track record and experience management.
However, these strengths are partly offset by the intensive working capital management. The rating is further constrained by cyclical nature of the steel industry.

About Company

K. J. Steel Rolling Mills (KJSRM) began its operations in January 2004 as a partnership firm in Jalandhar. Mr. Ashok Goyal and Mr. Pritpal Singh Chawla oversee the day-to-day activities of the company. The primary focus of the firm is the production of steel flats, bars and spring steel for automobile industry, hand tools and general engineering industry through induction furnace and rolling mill route.

About the Group

Incorporated in 1992 as its flagship entity, Bhawani Shankar Casting Private Limited (BSCPL) operates out of Jalandhar. The company is overseen by Mr. Ashok Goyal and Mr. Pritpal Singh Chawla and specializes in the manufacturing of steel ingots through induction furnace. BSCPL sells 95% of its production to K. J. Steel Rolling Mills.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at its rating, Acuité has consolidated the business and financial risk profiles of K J

Steel Rolling Mills, and Bhawani Shanker Castings Private Limited. The consolidation is in the view of common promoters and management, intercompany holdings, operational linkages between the entities and a similar line of business.

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. The other entities K.J. Steel Rolling Mills were established in 2004. 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 company will benefit from its experienced management which helps the group in maintaining long standing relations with reputed customers and suppliers.

- **Steady scale of Operations**

The group has increased revenues to Rs. 317.99 Cr. in FY2023 as compared to revenues of Rs. 293.65 Cr. in FY2022. The improvement in revenues is majorly on account of increase in average realization during the period. The group has achieved revenue of Rs. 205.83 Cr. as on September 2023(Provisional).
Acuité believes that the group will help to maintain its business risk profile over the medium term.

The operating margin of the group stood at 6.28 per cent in FY2023 as compared to 6.35 per cent in FY2022. The marginal decline is on account of increase in raw material costs. The PAT margins stood at 4.20 per cent in FY2023 as against 3.89 per cent in FY 2022. The ROCE levels stood at a comfortable level of about 16.99 per cent in FY2023 as against 22.05 per cent in FY2022.

Acuite believes that going forward, the profitability margins are expected to improve over the medium term.

- **Above average financial risk profile**

The above average financial risk profile of the group is marked by improving net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the group stood at Rs.46.83 Cr. as on March 31, 2023 as compared to Rs.40.00 Cr. as on March 31, 2022 due to accretion to reserves. The gearing of the group stood moderate at 1.62 times as on 31 March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.84 times as on March 31, 2023. The debt protection matrices of the group is comfortable marked by Interest coverage ratio (ICR) of 3.79 times for FY 2023 and debt service coverage ratio (DSCR) of 3.79 times for FY2023. The net cash accruals to total debt (NCA/TD) stood healthy at 0.21 times in FY2023.
In FY 2023, the group invested Rs. 8.00 Cr towards capital expenditures in KJSRM, with Rs. 7 Cr. sourced from debt and Rs. 1 Cr. internally, to expand the manufacturing capacity of alloy steel flats from 60000 metric tons to 80000 metric tons. Additionally, a capital expenditure of Rs. 7.00 Cr. has been initiated in BSCPL, with Rs. 5 Cr. funded through debt and the remaining internally, to expand the manufacturing capacity of alloy steel ingots from 42000 metric tons to 84000 metric tons.

Going forward, Acuité believes that going forward the financial risk profile will continue to remain above average over the medium term, supported by healthy internal accrual generation.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 170 days for FY2023 as compared to 136 days for FY2022. The GCA days are mainly on account of high receivables days. The debtor days of the group stood at 131 days for FY2023 as against 99 days for FY2022. However, the inventory days of the group stood at 36 days in FY2023 as compared to 27 days in FY2022. Against this, the group has substantial dependence on its suppliers to support the working capital; creditors stood at 68 days as on March 31, 2023.
Acuité believes that the working capital operations of the group will remain at the similar levels over the medium term.

- **Strong Competitive Pressure and Inherent Cyclical Patterns in the Steel Sector**

The steel rolling sector continues to lack organization and cohesion. The company faces strong competitive forces from both organized and unorganized participants, compounded by the cyclicality inherent in the steel industry. Moreover, the government's emphasis on steel-intensive sectors like railways and infrastructure increases vulnerability; any prolonged drop in demand would negatively affect steel companies' performance. Furthermore, the fluctuation in prices of raw materials and goods is considerably unstable. The business also contends with rivalry from more affordable imports from Indonesia and China. A substantial rise in imports could detrimentally affect earnings and quantities, making this a crucial aspect to watch.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Working capital cycle.
- Sustenance of the capital structure.

Liquidity Position

Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.15.73 Cr as on March 31, 2023 as against no long term debt repayment over the same period. Moreover, the current ratio stood at 1.49 times as on March 31, 2023. Moreover, the fund based limit remained utilized at ~67.24 per cent over the six months ended January, 2024. The cash and bank balance stood at Rs.0.23 Cr for FY 2023. Further, the working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 170 days for FY2023 as compared to 136 days for FY2022. Acuité believes that the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	317.99	293.65
PAT	Rs. Cr.	13.34	11.43
PAT Margin	(%)	4.20	3.89
Total Debt/Tangible Net Worth	Times	1.62	1.51
PBDIT/Interest	Times	3.79	4.70

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

Any Other Information
None

Applicable Criteria
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

Note on Complexity Levels of the Rated Instrument
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Jan 2024	Cash Credit	Long Term	20.00	ACUITE BB+ | Not Applicable (Reaffirmed & Issuer not co-operating*)
31 Oct 2022	Cash Credit	Long Term	20.00	ACUITE BB+ | Not Applicable (Reaffirmed & Issuer not co-operating*)
04 Aug 2021	Cash Credit	Long Term	20.00	ACUITE BB+ (Downgraded & Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB- | Stable | Upgraded (from ACUITE BB+)

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Bhawani Shankar Casting Private Limited (BSCPL)

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.