SMERA RATINGS LIMITED

Jharkhand Grind Chem Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	8.00	SMERA BBB-/Stable(Assigned)
Standby Line of Credit	1.20	SMERA BBB- /Stable(Assigned)
Term Loan	2.78	SMERA BBB- /Stable(Assigned)
Letter of Credit	5.00	SMERA A3 (Assigned)
Bank Guarantee	1.00	SMERA A3 (Assigned)

SMERA has assigned long term ratings of **'SMERA BBB-' (read as SMERA triple B minus)** to the Rs.11.98 crore long term bank facilities and short term rating of **'SMERA A3' (read as SMERA A three)** to the Rs.6.00 crore short term bank facilities of Jharkhand Grind Chem Private Limited (JGCPL). The outlook is **'Stable'**.

The ratings draw support from the experienced management, long track record of operations and established relations with reputed players in the steel industry. The ratings are also strengthened by the healthy financial risk profile, adequate debt coverage indicators, sound liquidity position and healthy profitability margins. However, the ratings are constrained by the moderate scale of operations, susceptibility of profitability to volatility in raw material prices and cyclical nature of the steel industry.

JGCPL established in 2004 is engaged in the manufacture of foundry fluxes and chemicals used as consumables in the steel industry. The company benefits from its experienced management. The directors Mr. Ashwini Kumar and others possess over a decades experience in the industry. The company has established relations with reputed players like JSW, Sail, Bhushan steel to name a few.

The healthy financial risk profile is marked by healthy gearing of 0.49 times as on March 31, 2016 as compared to 0.55 times as on March 31, 2015, interest coverage ratio at 3.83 times and DSCR at 3.02 times in FY2016. JGCPL has a sound liquidity profile with healthy net cash accruals of Rs 2.08 crore in FY2016 and comfortable working capital cycle of 59 days in FY2016. The operating profit margin has been healthy at 9.89 percent in FY2016 as compared to 9.79 percent in FY2015.

However, JGCPL has moderate scale of operations with operating income of Rs.39.83 crore in FY2016 (PY: Rs 38.34 crore). Going ahead, the scale of operations is expected to improve due to capacity addition. The company has set up a unit which started commercial operations in July 2016. The capacity has increased from 17000 metric tonnes per annum to 25000 metric tonnes per annum. Moreover the manufacturing facilities are in close proximity to end user industries providing cost advantages.

Also the margins of the company are susceptible to volatility in raw material prices. Any significant change in raw material prices due to economic pressure would have an impact on margins of the company. The company is also exposed to the inherent cyclical nature of the steel industry as demand for steel products is influenced by macroeconomic fluctuations.

Rating Sensitivity Factors

- Sustained improvement in revenues while maintaining profitability
- Efficient working capital management
- Change in capital structure

Outlook – Stable

SMERA believes that JGCPL will maintain a stable outlook in the medium term owing to its promoters' extensive experience and established relations with customers. The outlook may be revised to 'Positive' if the company registers more than expected revenues while improving profitability and net cash accruals. However, the outlook may be revised to 'Negative' in case of failure to achieve the expected revenues or profitability or if the working capital cycle further deteriorates.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

JGCPL was established in 2004 for manufacturing of foundry fluxes and chemicals (granular and powder form) used as consumables in the foundry works of the steel industry. The directors, Mr. Ashwini Kumar and others possess over a decades of experience in the industry. The manufacturing facilities are located at Adityapur, Jharkhand. The day-to-day activities of the company are managed by Mr. Niranjan Kr. Routh.

For FY2016, JGCPL reported profit after tax (PAT) of Rs.1.68 crore, operating income of Rs.39.83 crore as compared with PAT of Rs.1.85 crore on operating income of Rs.38.34 crore in the previous year.

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ABOUT SMERA

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