

Press Release

K J International

July 31, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 15.06 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 15.06 crore bank facilities of K J International. The outlook is '**Stable**'.

K J International (KJI), established in 2010 is a Punjab-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 and has an installed capacity of 5 metric tons per day. These find application in the hand tool, automobile and engineering industries.

Key Rating Drivers

Strengths

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

The group was incorporated in 1992 with Bhawani Shankar Castings Private Limited as the primary entity. The promoters possess experience of around 25 years in the iron and steel industry. The business is also joined by the second generation of professionals from the family.

- **Above average financial risk profile**

The financial risk profile of the group is marked by healthy networth, modest gearing and comfortable debt protection measures. The networth levels of the group stood at around Rs.159.29 crore as on 31 March, 2017 (Provisional) as against Rs.126.70 crore on 31 March, 2016. The net worth includes unsecured loans of Rs.71.35 crore as on 31st March, 2017 (Provisional) as against Rs.71.33 crore in FY2016 from promoters which is subordinated to bank debt. Hence SMERA has treated them as quasi equity. The gearing of the group stands at a moderate 1.25 times as on 31st March, 2017 (Provisional) compared to 1.40 times in the previous year. 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) as compared to 1.87 times in FY2016.

Weaknesses

- **Inherent cyclical in the steel industry**

The group's revenue and profitability are susceptibility to the inherent cyclical 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 in the industry.

Analytical Approach

While assigning the rating, SMERA has consolidated the operational and financial risk profiles of K J International, K J Steel Rolling Mills, Arora Iron & Steel Rolling Mills, Jyoti Industries (Unit II) and Bhawani Shankar Castings Private Limited. The consolidation is in view of the common management, similarities in the lines of business and significant financial linkages. The group is herein referred to as the K J Group (KJG).

Outlook: Stable

SMERA believes that the group will maintain a stable outlook in the medium term on account of its experienced management and long operational track record. The outlook may be revised to 'Positive' in case of 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 in case the firm undertakes any debt-funded capital expenditure, further weakening its financial risk profile.

About the Group

The group was established in 1992 with the incorporation of Bhawani Shankar Castings Private Limited as the flagship entity. Arora Iron & Steel Rolling Mills was incorporated in 1995 while 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 who possess 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 and has installed capacity of 5 metric ton per day. The products find application in the hand tools, automobile and engineering industries. K. J. Steel Rolling Mills (KJSRM) was established as a partnership firm in January 2004. Partners, Mr Pawan Goyal and Mr Pritpal Singh Chawla manage the day-to-day operations of the firm. The firm is engaged in the manufacturing of flats, bars and spring steel and caters 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.

About the Rated Entity - Key Financials

For FY2017 (Provisional), the firm reported profit after tax (PAT) of Rs.1.23 crore on operating income of Rs.42.00 crore, compared to Rs.0.50 crore on operating income of Rs.34.23 crore in FY2016. The net worth stood at Rs.4.38 crore as on March 31, 2017 (Provisional) against Rs.2.11 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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>

Rating History (Upto last three years)

Not Applicable

*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	8.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.06	SMERA BBB- / Stable

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ABOUT SMERA

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