

Press Release

K J International

December 15, 2021



Rating Upgraded

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.06	19.06	ACUITE BBB- Stable Upgraded	
Total	-	19.06	-	-

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating from 'ACUITE BB+' (read as ACUITE double B plus) to 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs.19.06 Cr bank facilities of K J International (KJI). The outlook is 'Stable'.

The rating upgrade on KJI is driven by firm's cooperation in providing all information required for the rating process. Also, the upgrade takes cognizance of improvement in the business risk profile marked by improvement in profitability margins and increased penetration into the export market.

Further, the rating draws comfort from the long track record of operations, experienced promoters and comfortable financial risk profile of the firm marked by moderate net worth, comfortable gearing and strong debt protection metrics. These strengths are however, partly offset by the working capital intensity in firm's operations and susceptibility of margins to volatility in raw material prices.

About the firm

Established in 2010, KJI is a Jalandhar based partnership concern. The firm is currently headed by Mr. Sahil Goyal and Mr. Pawan Goyal. The firm is engaged in the manufacturing of alloy steel flats/bars through the induction furnace route. The firm has a 7MT induction furnace with an installed capacity of 100 MTP/day and steel rolling mill with a capacity of 300 MTP/day. The products of the firm finds application in industries like hand tools, automobiles, engineering industry etc.

Analytical Approach

Acuité has revised its analytical approach and considered the standalone business and financial risk profile of K J International since there has been a reorganisation of the business and the Arora group has been divided into three independent groups having separate managements with no business or financial linkages.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

KJI was established in 2010 as a part of Arora Group. However, due to recent division of the group, KJI is now a partnership firm headed by its promoters, Mr. Sahil Goyal and his father Mr. Pawan Goyal (who was previously involved in K. J. Steel Rolling Mills). Both the partners in KJI have over a decade of experience in the same business and have been able to maintain long-term relations with their customers and suppliers. The firm has also successfully forayed into the export market. Acuité believes that the firm will continue to benefit from its experienced management and long track record, going forward.

Comfortable financial risk profile

The company's comfortable financial risk profile is marked by moderate net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood at Rs.34.67 Cr as on 31 March, 2021 (prov.) as against Rs.28.37 Cr as on 31st March, 2020. Acuité has considered unsecured loans of Rs.17.57 Cr as part of networth as the management has undertaken to maintain the same in the business over the medium term. The gearing stood below unity at 0.71 times in FY2021 (prov.) as against 0.62 times in FY2020. Further, strong debt protection is marked by interest coverage ratio (ICR) at 3.97 times and DSCR at 3.04 times in FY2021 (prov.). The NCA/TD stood at 0.29 times in FY2021 (prov.). Acuité believes that the financial risk profile of the firm will remain at similar levels over the medium term.

Improvement in profitability margins

KJI's EBITDA grew by around 27 per cent and the operating margin stood at 5.82 per cent in FY21. Further, the PAT margin improved to 3.19 per cent in FY21 (prov.) as against 2.33 per cent in FY20. The margins improved majorly due to higher realization from the export market and partially due to reduction in raw material costs in FY21.

Weaknesses

Working capital intensive nature of operations

The working capital operation of the firm is intensive marked by GCA (Gross Current Assets) Days of 191 days in FY 2021 (prov.) as compared to 190 days in the previous period. High GCA days are on account of high debtor period which stood at 110 days in FY21 (prov.) as compared to 99 days in FY20. The debtor period stretched as the credit period with customers in the export market increased. The inventory days however, improved and stood comfortable at 44 days in FY 2021 (prov.) as compared to 60 days in FY20. Acuité believes the working capital cycle to remain to remain at similar levels over the medium term market by efficient inventory management and delayed collection mechanism.

Susceptibility to fluctuation in raw material prices and inherent cyclical in the steel industry

The firm's revenue and profitability are susceptible to the inherent cyclical in the steel industry and volatility in steel prices resulting from trade tariffs, and exchange rate fluctuations as the firm derives substantial part of its revenue from exports.

Liquidity Position: Adequate

The firm has an adequate liquidity position marked by net cash accruals of Rs.6.96 Cr as against a long term debt obligation of Rs.0.75 Cr during the same period. The current ratio stood comfortable at 1.45 times and the firm has cash and bank balances of around Rs.0.30 Cr in FY21 (prov.). The working capital limits remained utilized at 76 percent for six months ended October, 2021. However, KJI availed a Covid loan of Rs.4.70 Cr and a loan moratorium. Acuité believes that the liquidity of the firm will improve further over the medium term due to steady net cash accruals.

Rating Sensitivities

- Growth in their scale of operations while sustaining its operating profitability
- Elongation in the working capital cycle
- Successful completion of capital expenditure while achieving financial closure

Material covenants

None

Outlook: Stable

Acuité believes that KJI will maintain a 'Stable' outlook over the medium term on account of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues or significant elongation in working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	157.54	143.43
PAT	Rs. Cr.	5.03	3.34
PAT Margin (%)	(%)	3.19	2.33
Total Debt/Tangible Net Worth	Times	0.71	0.62
PBDIT/Interest	Times	3.97	3.02

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Aug 2021	Proposed Bank Facility	Long Term	0.24	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	12.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	6.82	ACUITE BB+ (Downgraded and Issuer not co-operating*)
13 Jun 2019	Term Loan	Long Term	6.82	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.24	ACUITE BBB Stable (Reaffirmed)
22 Mar 2018	Cash Credit	Long Term	12.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	6.82	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	0.24	ACUITE BBB Stable (Assigned)

31 Jul 2017	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.06	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	17.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.06	2.06	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

PC (sublimit of CC) to the extent of Rs.8.00 Cr.

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Sonal Modi Analyst-Rating Operations Tel: 022-49294065 sonal.modi@acuite.in	

About Acuité Ratings & Research

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