

Press Release

Jagdamba Ispat Private Limited

15 July, 2020

Rating Reaffirmed & Assigned



| | |
|-------------------------------------|-----------------------------------|
| Total Bank Facilities Rated* | Rs. 16.00 Cr. |
| Long Term Rating | ACUITE BB-/Stable (Reaffirmed) |
| Short Term Rating | ACUITE A4+ (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating at '**ACUITE BB-**' (**read as ACUITE double B minus**) and assigned short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.16.00 crore bank facilities of Jagdamba Ispat Private Limited (JIPL). The outlook is '**Stable**'.

JIPL was incorporated in 2004 as a private limited company by Mr. Sandeep Murarka, Mr. Sanjay Kumar Murarka and Mr. Arun Kumar Agarwal. The company is engaged in manufacturing of MS Ingots with an installed capacity of 54000 MTPA. The company has three manufacturing facilities located at Durgapur (West Bengal).

Analytical Approach:

Acuité has considered a standalone business and financial risk profile of JIPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management

JIPL benefits from its experienced management. Mr. Sandeep Murarka, Managing Director, has more than 15 years of experience in the iron and steel industry. The other directors of the company Mr. Sanjay Kumar Murarka and Mr. Arun Kumar Agarwal also have extensive experience in iron and steel industry. This helps the company to establish a healthy relationships with the customers as well as with their suppliers.

Moderate scale of operation

The revenue of the company stood moderate at Rs.120.14 crore in FY2019 as compared to Rs.62.60 crore in the previous year. The increase in revenue has been due to the improvement in the realization per unit. The company has booked Rs.97.46 crore in FY2020 (Prov.). Going forward, Acuité believes the revenue of the company will be moderate based on the subdued demand for iron and steel from the domestic market as well as from the international market.

Weaknesses

Below average financial risk profile

The financial risk profile of the company is marked by low net worth, high gearing and moderate debt protection metrics. The net worth of the company stood low at Rs.6.98 crore in FY2019 as compared to Rs9.69 crore in FY2018. The networth of the company also stood low at Rs.7.27 crore in FY2020 (Prov.). However, this improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood high at 2.18 times as on March 31, 2019 when compared to 2.48 times as on March 31, 2018. The gearing of the company also stood high at 2.11 times in FY2020 (Prov.). The total debt of Rs 15.31 crore in FY2020 (Prov.) comprises mainly of a short term loan of Rs. 12.11 crore, unsecured loan of Rs.1.60 core from promoters and long term loan of Rs.1.60 crore. Interest coverage ratio (ICR) of the company stood moderate at 1.41 times in FY2019 as against 1.51times in FY 2018. The interest coverage ratio of the company also stood moderate at 1.49 times in FY2020 (Prov.). The debt service coverage ratio of the company also stood low at 1.04 times in FY2019 as compared to 0.75 times in the previous year. The net cash accruals to total debt (NCA/TD) stood low at 0.05 times in FY2019 as compared to 0.04 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will be sustained at the current levels backed by modest accruals and no major capex plans.

Low profitability margin

The operating profitability margin of the company has declined and stood low at 2.20 per cent in FY2019 as compared to 4.34 per cent in the previous year. This significant decline in operating margin is mainly on account of increase in raw material price during the period. The operating profitability margin has again declined to 2.08 per cent in FY2020 (Prov.). The net profit margin of the company stood low at 0.22 per cent in FY2019 as compared to 0.46 per cent in the previous year. The net profitability margin of the company has also stood low at 0.29 per cent in FY2020 (Prov.).

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Further deterioration in liquidity position of the company

Material Covenant

None

Liquidity Position: Stretched

The company has stretched liquidity marked by low net cash accruals of Rs.0.70 crore as against Rs.0.80 crore of yearly debt obligations in FY2019. The cash accruals of the company are estimated to remain in the range of around Rs. 0.70 crore to Rs. 0.105 crore during 2020-22 against Rs.1.20 crore repayment in FY2021 and Rs. 0.80 crore in FY2022. The working capital intensity of the company is marked by Gross Current Asset (GCA) days of 130 days in FY2019. The bank limit is fully utilized by the company for the last six months ended in June 2020. The current ratio of the company stood moderate at 1.00 times in FY 2019. The company has also been sanctioned a Covid19 Emergency Credit Line of Rs.1.20 crore. The said loans are to be repaid over a period of 2 years with a six months moratorium. Hence Acuité believes that this short term funding will ease the liquidity position of the company. However, the company has not availed of the moratorium on their CC and TL facilities till the end of Aug 2020. Acuité believes that the liquidity of the company is likely to remain stretched on account of low cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes that JIPL will maintain a 'Stable' outlook and continue to benefit over the medium term from its established presence in the iron and steel industry. The outlook may be revised to 'Positive' in case of a substantial increase in the scale of operations and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenues and profit margins, or further elongation in the working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 120.14 | 62.60 |
| PAT | Rs. Cr. | 0.27 | 0.29 |
| PAT Margin | (%) | 0.22 | 0.46 |
| Total Debt/Tangible Net Worth | Times | 2.18 | 2.48 |
| PBDIT/Interest | Times | 1.41 | 1.51 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings / Outlook |
|-------------|---------------------------------|-----------|------------------|--------------------------------|
| 09-Apr-2019 | Cash Credit | Long Term | 12.00 | ACUITE BB-/Stable (Reaffirmed) |
| | Term Loan | Long Term | 4.00 | ACUITE BB-/Stable (Reaffirmed) |
| 28-Feb-2018 | Cash Credit | Long Term | 12.00 | ACUITE BB-/Stable (Assigned) |
| | Term Loan | Long Term | 4.00 | 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. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE BB-/Stable (Reaffirmed) |
| Term Loan | Not Available | Not Applicable | March 2022 | 1.75 | ACUITE BB-/Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.25 | ACUITE A4+ (Assigned) |

Contacts Details

| Analytical | Rating Desk |
|---|--|
| Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Abhishek Dey Analyst - Rating Operations Tel: 033-66201208 abhishek.dey@acuite.in | |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile ACUITE Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising

www.acuite.in

from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.