

Press Release

JBA Re Rolling Mills

D-U-N-S® Number: 87-160-2689

December 14, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 17.00 crore bank facilities of JBA Re Rolling Mills (JRRM). The outlook is '**Stable**'.

JRRM is a partnership firm established in 1995 by partners, namely, Mr. ME Jamaludeen, Mr. A. Mohamed Ansar, Mr. J. Basheer Ahamed, Mr. J. Asrar Ahamed and Mr. A Zubair Ahmaed. The firm is engaged in manufacturing of Thermo Mechanically Treated (TMT) bars. The firm's manufacturing plant is located at Thondamanatham Village in Puducherry and has a production capacity of 36,000 MTPA. It manufactures TMT bars of Fe 500 grade.

Analytical Approach

For arriving at the ratings, Acuite has consolidated the business and financial risk profiles of JBA Metal Company and JBA Re Rolling Mills, collectively referred to as JBA Group or group, as all these entities share significant operational, managerial and financial synergies due to common management, similar line of business and operational linkages. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced Promoters and established track record of operations**

The promoters have more than two decades of experience in the Iron and Steel industry. The group started its operations with manufacture of TMT bars; and as a backward integration, ventured into ingots manufacturing. Promoters experience and established relationship with its stakeholders helped the group in reporting a compound annual growth rate of about 27 percent over three years through FY2018 with revenues of about Rs.132.29 crore in FY2018. Acuite believes that with experienced partners, established operational track record and vintage clientele the group is expected to benefit in improving its business risk profile over the medium term.

Weaknesses

- **Weak liquidity and highly working capital intensive operations**

JBA group has weak liquidity position marked by continuous losses, negative cash accruals, and intense working capital requirement for the past two fiscals. The group has reported Cash losses of about Rs.4.07 crore in FY2018 and Rs.12.53 crore in FY2017; Cash losses are owing to low EBIDTA margins on account of increase in Power costs, volatile raw material prices, higher installed capacity and low operating rates. Also, its Gross Current Assets (GCA) are high at 182 days as on March 31, 2018 (PY: 107 days) due to moderate debtor and high inventory days. This has resulted in full utilisation of its bank lines for the past six months through October 2018, restricting the financial flexibility. The group has repayment obligations of about Rs.1.2 - 1.6 crore over the medium term; the promoters have been infusing the funds by way of unsecured loans to meet the requirement. Improvement in the operating rate, profitability margins and timely infusion of funds are key rating sensitivity factors over the near term.

• Weak financial risk profile

The financial risk profile of the group is weak reflected by weak debt protection metrics, and below-average capital structure. Debt protection metrics are weak as Interest Coverage Ratio (ICR) stood at 0.39 times and negative net cash accruals to total debt (NCA/TD) at 0.07 times as on March 31, 2018; weak attributed to negative / low profitability margins at EBIDTA level. The group's capital structure is below-average marked by moderate gearing (debt-to-equity) and high total outside liabilities to total net worth (TOL/TNW) of 1.67 times and 2.83 times as on March 31, 2018 improved from 2.11 times and 3.32 times in FY2017. The net worth is modest at Rs.28.94 crore as on March 31, 2018. The group has an investment plan for addition of plant & machinery in the existing facility with a total investment outlay of Rs.10.68 crore which is proposed to be funded through term loan of Rs.7.70 crore and rest through fresh equity of Rs.2.00 crore and accruals. Improvement in the revenues and profitability are the key rating sensitivity factors for improvement of the financial risk profile.

Outlook: Stable

Acuite believes that the outlook on JBA Group will remain 'Stable' over the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues and accruals. Conversely, the outlook may be revised to 'Negative' in case of lower than expected cash accruals, thus, further weakening its financial risk profile and liquidity.

About the Group

JBA Metal Company is a partnership firm established in 1998 by partners, namely, Mr. ME Jamaludeen, Mr. A. Mohamed Ansar, Mr. J. Basheer Ahamed, Mr. J. Asrar Ahamed and Mr. A Zubair Ahmaed. The firm is engaged in manufacturing of mild steel (MS) ingots and billets. The firm's manufacturing unit is located at Thondamanatham Village in Puducherry and has a production capacity of 54,000 metric tonnes per annum (MTPA).

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	132.29	129.05	81.38
EBITDA	Rs. Cr.	1.66	-7.50	6.70
PAT	Rs. Cr.	-4.07	-13.15	1.42
EBITDA Margin	(%)	1.25	-5.81	8.23
PAT Margin	(%)	-3.07	-10.19	1.74
ROCE	(%)	1.99	-12.07	10.65
Total Debt/Tangible Net Worth	Times	1.67	2.11	1.52
PBDIT/Interest	Times	0.39	-1.30	1.41
Total Debt/PBDIT	Times	23.18	-5.31	6.38
Gross Current Assets (Days)	Days	182	107	320

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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	ACUITE B- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE B- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.60	ACUITE A4

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About Acuite Ratings & Research:

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