



Press Release
JAI HANUMAN UDYOG LIMITED
November 30, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.00	ACUITE BB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	42.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 42.00 Cr bank facilities of Jai Hanuman Udyog Limited (JHUL). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned takes into account the extensive experience of the promoters of around one and a half decade in the iron and steel industry and steady business risk profile. The rating further factors in the comfortable coverage indicators (ICR: 2.48 times and DSCR: 1.94 times as on March 31, 2023). The adequate liquidity position as reflected the in moderate utilization of bank limits at ~81 per cent for the last six months ended September 2023 and sufficient cushion in the net cash accruals, further supports the rating. The rating, however, remains constrained by working capital intensive nature of operations of the company due to high level of inventory maintained to mitigate raw material price fluctuation risk, however Acuite notes that there is no credit risk in the company as they usually receive advance payments from the customers or on the cash basis. The rating also remains constrained by the inherent cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

About the Company

Incorporated in 2003, Jai Hanuman Udyog Limited (JHUL) is engaged in the manufacturing of sponge iron with a total installed capacity of 73000 MTPA in its manufacturing facility located in Jharsuguda, Odisha. The operations of the company are being managed by current Promoter Director, Mr. Deepak Agarwal, Sameer Agarwal and Kabita Kedia. The operations of the company were taken over by the current management in June'20.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of JHUL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

The Promoters of the company namely, Mr. Deepak Agarwal , Mr. Sameer Agarwal & Mrs.

Kabita Kedia have extensive experience in the Iron & Steel Industry of more than one and a half decade. The promoter's extensive experience has played a pivotal role in the company's ability to cultivate robust relationships with both its customers and suppliers. Further, they are

ably supported by a group of experienced professionals as well. Acuité believes that the long experience of the management might continue to benefit the company going forward, resulting in steady growth in the scale of operations.

Steady business risk profile

The company has registered a steady growth in its scale of operations marked by operating income of Rs.141.39 Cr in FY2023 as compared to Rs.134.11 Cr in FY2022 and Rs.99.10 Cr in FY2021. Though the average realisation of sponge iron declined during FY23, increased realisations from iron ore fines and enhanced sales volume contributed to an increase in the operating income during FY23. Further, the company has achieved Rs.73.10 Cr in Apr'23-Sept'23.

Acuité believes that going forward, the scale of operations will remain comfortable over the medium term, driven by an established market position, and the continued thrust on infrastructure development, along with a pick-up in real estate and construction activities by the government.

The operating margin of the company stood at 7.10 per cent in FY2023 as against 7.08 per cent in FY2022. The operating margins have declined from the highs of FY2021 level (11.23 per cent) due to increase in the basic raw material prices, i.e, iron ore and coal over the years. The PAT margin stood at 2.57 per cent in FY2023 as against 2.44 per cent in FY2022.

Sustained improvement in the profitability margins will remain a key rating sensitivity.

Average financial risk profile

The company's financial risk profile is average marked by moderate net worth base, moderate gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.32.16 Cr as on March 31, 2023 from Rs.20.69 Cr as on March 31, 2022, due to accretion of profits to reserves. Acuité has considered unsecured loans of Rs.7.83 Cr as on March 31, 2023 as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Though the gearing has improved, it still stood moderate at 1.23 times as on March 31, 2023 as against 1.63 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.86 times as on March 31, 2023. Moreover, the comfortable debt protection metrics is marked by Interest Coverage Ratio of 2.48 times as on March 31, 2023 as against 2.90 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.94 times as on March 31, 2023 as against 2.49 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.13 times as on March 31, 2023 as against 0.15 times as on March 31, 2022.

Acuité believes that going forward the financial risk profile of the company is likely to be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The company has a working capital intensive nature of operations marked by high GCA days of 186 days in FY2023 as against 121 days in FY2022 on account of high level of inventory. The inventory days stood increased at 144 days in FY2023 as against 119 days in FY2022 as the company maintains a stock of raw materials (iron ore, coal, etc) for ~3-4 months on an average to mitigate any fluctuations in the raw material prices and ensure smooth production. However, the company makes sales on cash against delivery or advance basis, hence nil debtors during the end of the year. In certain instances, the company gives 7 days credit to regular customers, which are settled by the end of the month. Further top customers include Shyam Metalics & Energy Ltd rated (CRISIL AA), Gajkesari Steels & Alloys Pvt Ltd rated (IVR BBB+) & Rathi Steel & Metal Pvt Ltd rated (IVR BBB+), thereby mitigating the counterparty risk.

Acuité believes that the working capital requirement is likely to remain at similar levels in the near to medium term considering the high level of inventories and low debtors.

Inherent cyclical nature of the steel industry

The company's performance remains vulnerable to cyclicity in the steel sector given the close linkage between the demand for steel products and the domestic and global

economy. The end-user segments such as real estate, civil construction and engineering also display cyclicalities. Further, operating margins are vulnerable to volatility in the input prices (iron ore and coal) as well as realization from finished goods. The prices and supply of the main raw material, iron ore and coal, directly impacts the realization of finished goods. Any significant reduction in the demand and prices adversely impacting the operating margins and cash accruals of the company will remain a key monitorable.

Rating Sensitivities

- Improvement in scale of operations and profitability margins.
- Sustenance of capital structure.
- Further elongation of working capital cycle.

All Covenants

None.

Liquidity Position Adequate

The company has an adequate liquidity position marked by net cash accruals of Rs.5.27 Cr as against maturing long term debt repayment of only Rs.0.58 Cr during the same tenure. Further, the company is expected to generate sufficient net cash accruals to repay its debt obligation in near to medium term. The current ratio stood moderate at 1.28 times as on March 31, 2023 as compared to 1.26 times as on 31 st March, 2022. Further, the fund-based limits remained moderately utilized at ~81.42 per cent for six months ended September 2023. The cash and bank balances of the company stood at Rs.0.11 Cr as on March 31, 2023. However, the working capital management of the company is intensive marked by Gross Current Assets (GCA) of 186 days in FY2023 as compared to 121 days in FY2022.

Acuité believes that going forward the company is likely to maintain adequate liquidity position on account of steady accruals.

Outlook: Stable

Acuité believes that the outlook on the JHUL will be 'Stable' over the medium term on account of the long track record of operations, experienced management, steady business risk profile and average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the JHUL's revenues or profit margins, or in case of deterioration in the JHUL's financial risk profile and liquidity position or elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	141.39	134.11
PAT	Rs. Cr.	3.64	3.27
PAT Margin	(%)	2.57	2.44
Total Debt/Tangible Net Worth	Times	1.23	1.63
PBDIT/Interest	Times	2.48	2.90

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

Brickworks vide its press release dated 30th January 2023, had rated the company to BWR B+/Stable; Issuer Not Cooperating.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Available

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	36.00	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.25	ACUITE BB+ Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.75	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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