JTL Infra Limited

September 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	125.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Assigned
Total Bank Facilities	**125.00 (₹ One Hundred Twenty-Five Crore Only)**		
Commercial Paper (Carved out)	40.00	CARE A2+ (A Two Plus)	Assigned
Total Short-Term Instruments	**40.00 (₹ Forty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and commercial paper issue of JTL Infra Limited (JTL) derives strength from its experienced promoters with an established track record of operations in steel pipes industry, reputed client base, healthy growth in scale of operations and sustained profitability margins over the past three years through FY22 (refers to the period April 01 to March 31). The ratings also take comfort from the healthy financial risk profile of JTL characterized by comfortable overall gearing, healthy debt coverage indicators and moderate operating cycle of the company.

These rating strengths are, however, partially offset by the fragmented and competitive nature of steel pipes industry and exposure to raw material prices volatility. The ratings also take cognizance of the ongoing CBI case of money laundering against Mr. Vijay Singla (Ex-Director and Promoter) in his personal capacity and slight moderation in profitability margins during Q1FY23 (refers to the period April 01 to June 30).

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations and sales volumes above 20% from existing levels on a sustained basis
- Improvement in PBILDT per tonne above Rs. 5,200 per tonne and GCA above Rs. 70 crores on a sustained basis.
- Improvement in financial risk profile and overall gearing below 0.30x on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in PBILDT per tonne below Rs. 3,500 per tonne and GCA below Rs. 50 crores on a sustained basis.
- Significant increase in working capital requirements and resultant weakening of liquidity position
- Deterioration in overall gearing beyond 1.00x on a sustained basis leading to moderation in financial risk profile.
- Any adverse legal action/outcome under ongoing case against promoters having negative implication on the company.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with established track record of operations though have old history of legal action

JTL is promoted by Mr. Mithan Lal Singla having extensive experience of over 35 years in steel industry and Mr. Madan Mohan Singla, who is the Managing Director (MD) and executive director of the company with a relevant experience of more than 30 years in steel pipe industry. The management is supported by a team of professionals who are also on the Board of Directors with experience in the field of finance, economics, banking and industrial engineering etc. Further, company has an operational track record of 30 years and longstanding presence in the industry has helped the company to establish strong relationship with customers and suppliers, withstand industry cycles, expand and diversify the product profile and production capacity over the years. However, there is an ongoing legal case of money laundering against Mr. Vijay Singla (Ex-director of JTL) in his personal capacity and any adverse outcome in the same shall remain negative from credit perspective.

Reputed clientele and established distributor base

The company manufactures multiple products which includes ERW black steel tube & pipes, galvanized steel pipes & tubes, hollow sections and structural steel with varied sizes and thickness upto 8 mm that are extensively used in major engineering and construction projects. The company has wide network of more than 1,000 distributors and dealers. The company caters to domestic and overseas market to over 30 countries including Australia, United Kingdom, Europe, Ethiopia, South Africa etc. The company is associated with reputed customers; hence procurement of repeated orders and collection remains hassle free and counterparty risk also remains low.

JTL also provides its products to govt entities catering to Jal Jeevan Mission (govt entities comprises around 15 to 20% of total revenue of JTL) and presently executing order for 20,000 MT valuing around Rs. 300 crores.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Growing scale of operations with stable profitability margins though moderated in Q1FY23
The company has reported total operating income of Rs. 979.25 crore in FY22 registering a healthy CAGR of 44.90% over Rs. 321.91 crores in FY19. The sustained growth in income was largely on account of continuous capacity addition over last 3 to 4 years along with increased sales volumes driven by healthy demand for company's products and uptrend in steel industry across international and domestic markets. The company largely caters to end user segment like core infrastructure (contributing around 39.60% revenue) followed by Construction (~35.14%), irrigation & water transport (~12.67%) and engineering & heavy vehicles (~12.59%), hence catering to moderately diversified end user segments industry.
The company has been generating sustained profitability margins with PBILDT margins of 7.77% in FY22 compared to 7.37% in FY19 despite significant rise in employee cost. PAT margin also improved to 5.11% in FY22 from 4.50% in FY19 on account of sustained improvement in EBIDTA and lower interest cost during FY22.
During Q1FY23, the company reported EBIDTA margin of 6.24% on total operating income of Rs. 259.18 crore. The margins slightly moderated on account of lower construction activities due to onset of monsoon season leading to low demand of company's products. Going forward, company's ability to sustain the growth in income and margins shall be a key rating sensitivity.

Comfortable financial risk profile
Financial risk profile of the company is comfortable marked by low overall gearing and comfortable debt coverage indicators which had improved over the past 3 years through FY22. Overall gearing of the company improved from 1.03x as on March 31, 2019 to 0.50x as on March 31, 2022. Total Debt/GCA stood at 1.50x as on March 31, 2022 compared to 2.84x as on March 31, 2019. Interest coverage ratio stood comfortable around 11.85x as on March 31, 2022 improved from 8.17x as on March 31, 2019. The gradual improvement in financial risk profile is attributable towards addition in net worth upon conversion of share warrants at premium in FY20 and FY22 respectively as well as accumulation of profits into the system reflecting in increased net worth. The company has low long- term borrowings of Rs. 7.56 crore which mainly comprises of Covid loan.

Moderate operating cycle
Company's working capital cycle is moderate at around 54 days with average collection period of 35 days as on March 31, 2022 improved from 49 days in FY19. Creditor's period is around 11 days in FY22 compared to 16 days in FY19. The company maintains RM inventory of 20 to 30 days as procurement is done on back-to-back basis backed by orders and stock of finished goods for 15 to 20 days. Working capital requirement of the company is largely met through sanctioned limits of Rs. 114.00 crore though average utilization stands low at 35.74% during twelve months ending on May 31, 2022.

Key rating weaknesses
Fragmented and competitive nature of steel pipes industry
The steel tubes & pipes industry is highly competitive and fragmented due to presence of various organized and unorganized players and expanding applications of various types of steel pipes. Although, over the years the industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry. The decreasing share of unorganized and small players and increasing dominance of larger players is expected to result in better pricing power and margins for the larger players especially in ERW segment which has been the most fragmented segment historically, while other segments such as SAW, ductile and seamless pipes segments are traditionally dominated by few large players. The said risk is partially mitigated with JTL's long established track record of operations supported by its diversified manufacturing locations, products profile and presence across various customer segments.

Exposure to raw material price volatility
The major raw material used by the company for manufacturing steel tubes is hot rolled coil (HRC), total cost of materials consumed constitutes around 90 to 95% of total cost of sales. The prices of HR sheets/coils are linked to demand supply scenario of market and determined on a monthly basis, thus exposing the company to the volatility in the prices of raw materials which may have a bearing on its profitability margins. Recent imposition of export duty on iron-ore & certain steel products exclude seamless & ERW pipes, however, is applicable on the raw material of the company i.e. HR Coils, which may lead to improvement in domestic raw material availability.

Liquidity: Adequate
Company has adequate liquidity marked with expected gross cash accruals of close to Rs. 55 crore in FY23 against nominal scheduled debt repayment of Rs. 3 crore and residual can be used to meet incremental working capital requirement. Further, the liquidity buffer available in the form of unutilized WC limits to the tune of ~72% amounting to Rs. 90 crore (approx.) as on May 31, 2022. The company has free cash and cash equivalents of Rs. 12.51 crore as on March 31, 2022 parked largely in investments into quoted shares. Further, the company does not have any debt funded capex plans in near future.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology- Manufacturing Companies
Rating Methodology - Steel Industry

About the company
JTL Infra Limited (JTL) was initially incorporated as Jagan Tube Limited in July 1991 and later the name changed to JTL Infra Limited in April 2008. The company is engaged in manufacturing of black and galvanized Electric Resistance Welded (ERW) steel pipes & tubes, hollow sections with an aggregate installed capacity of 4,00,000 MTPA as on March 31, 2022 at its three manufacturing units located at Derabassi (Punjab) and Mangaon (Maharashtra) respectively. Zinc coated galvanised pipes have segregated installed capacity of 1,35,000 MTPA. The Jagan group has two more companies in the same line of business namely Chetan Industries Limited and Jagan Industries Private Limited.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	439.79	979.25	259.18
PBILDT	36.82	76.08	16.16
PAT	20.06	50.02	11.01
Overall gearing (times)	0.80	0.52	Not Available
Interest coverage (times)	4.43	11.85	20.99

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	125.00	CARE A-; Stable / CARE A2+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	7 to 364 days	40.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	125.00	CARE A-; Stable / CARE A2+	-	-	-	-
2	Commercial Paper-Commercial Paper (Carved out)	ST	40.00	CARE A2+	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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