

Jalna Siddhivinayak Alloys Private Limited

August 11, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	43.84	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	68.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable/ A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	6.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	117.84 (₹ One Hundred Seventeen Crore and Eighty-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Jalna Siddhivinayak Alloys Private Limited (JSAPL) to monitor the ratings vide e-mail communications/letters dated June 01, 2022, and August 05, 2022, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, JSAPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on JSAPL's bank facilities will now be denoted as **CARE BB-; Stable/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings take into account the moderate scale of operations with revenue dependent on two products, below average financial risk profile marked by leveraged capital structure with weak debt coverage parameters and working capital intensive nature of operations. The ratings also take into account geographically concentrated sales, susceptibility to volatility in raw material prices, presence in fragmented industry leading to intense competition and exposure to inherent cyclicity of steel industry.

The above weaknesses are however underpinned by the satisfactory experience of management with long track record in the industry, partially integrated manufacturing facilities with inhouse material testing facility, established clientele. The ratings also factor in the locational advantage emanating from proximity to customers and suppliers, and company being eligible for government incentives in the form of power subsidies and industrial promoter subsidy.

Detailed description of the key rating drivers

At the time of last rating on December 28, 2021 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Delays in debt servicing in recent past due to COVID-19 led disruptions

JSAPL has recent history of delays in servicing of debt obligations in term loan and overdrawn of CC limits. The same was on account COVID-19 led disruptions in the operations of the company resulting in stretched liquidity position. However, as on date the business and operations have normalized with phase wise unlock of the economy and debt servicing is regular since April 2021.

Moderate scale of operations with revenue dependent on only two products and low profitability

The scale of operation of the company remained moderate in the past four years ended FY21 (refers to the period from April 01 to March 31) with the total operating income in the range of Rs.220-360 crore. JSAPL manufactures only long steel products i.e. TMT Bars and MS Billets through hot rolling process where other by-products are formed hence the revenue is concentrated majorly on the two products leading to revenue concentration risk.

The PBILDT margin of the company though improved remained low in the range of 4.5-8.5% for past four years ended FY21. Further, on account of high fixed capital charges, the PAT margin remained low and stood at 0.80% in FY21.

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

Below average financial risk profile marked by leveraged capital structure with weak debt coverage indicators

The capital structure of the company is highly leveraged marked by overall gearing of 3.46x as on March 31, 2021 on account of high dependence on external borrowings resulting in high debt profile as against the moderate net-worth base of the company. Further, with low profitability and high debt, the debt coverage indicators of JSAPL remained weak in the past four years ended FY21 with PBILDT interest coverage around 1.60x and total debt/GCA of 14.46x as at the end of FY21.

Working capital intensive nature of the operations

The operations of the company are working capital intensive in nature with funds being blocked in receivables and inventory resulting in elongated working capital cycle of 166 days for FY21. This results in higher reliance on external borrowings for meeting working capital requirements subsequently in high utilization of cash credit facility.

Geographically concentrated sales

The company caters entirely to the domestic market with majority of the sales are concentrated in Maharashtra region (around 60%) followed by Gujarat and Madhya Pradesh. The buyers of the products are mainly real estate developers followed by government departments, contractors and retail distributors. Further, since the company has no long-term contracts with the customers, any downturn in order from them and drop in demand from any geography can significantly influence the sales of the company.

Steel industry characterized by inherent cyclical nature, competition from unorganized players due to fragmented nature of industry

The company is exposed to the cyclical nature associated with the steel sector which has direct linkage with the growth of the economy at large and, particularly with the steel end user industries such as automobile, housing, infrastructure, and others. The domestic steel industry is highly fragmented in nature with stiff competition from number of organized and unorganized players in terms of technology and new product offerings. Also, the industry remains extremely competitive on account of imports from countries like China, Vietnam and South Korea.

Susceptibility to volatility in raw material prices

Raw material consumption forms major cost component of the total cost of sales for the company. This directly exposes their cash flows and profitability to volatility in the steel prices. Therefore, any adverse fluctuation in steel prices will increase the procurement costs for JSAPL. It has been able to pass on the increase in input costs to its customers, although with a time lag.

Key Rating Strengths**Experienced management with established brand name**

JSAPL is a family driven business with high involvement of promoters in day-to-day operations. The key management personnel include Mr Sunil Radhakishan Agarwal, who is an engineering graduate and holds around 30 years of experience. He is ably supported by Mr Dinesh Omprakash Agrawal, a commerce post-graduate and holds around 25 years of experience in the steel industry among others in the family. Further, JSAPL has been present in the steel industry for past three decades and has established the brand under the name of 'ROOPAM QST (TMT) STEEL BARS'. Over the years the management has built good relations with the clients and suppliers which has helped established and expand the company over the years.

Locational advantage emanating from proximity to suppliers and customers

Jalna is an industrial hub located in Northern Marathwada region and is known for steel industries. Jalna has various Steel bars production facilities having a combined capacity of about 1 million MT per year. Being presented in the steel hub results in proximity to its suppliers and customers coupled with low transportation cost.

Government incentives in form of power subsidies and industrial promoter subsidy

The company is eligible for receiving power subsidy of Rs.0.70 per unit up-to the year 2024 from Maharashtra State Electricity Board. Since steel industry is dependent on technology that is power intensive in nature the subsidy by state electricity board is a huge cost saving to steel manufacturers. Furthermore, the steel project of JSAPL is registered as a Mega Project with Government of Maharashtra under the Package Scheme of Incentives – 2007 (PSI – 2007). As a result, the company has received sanction of Mega Project Benefit of Rs.75 Crores during FY19 and is also eligible for other benefits viz. stamp duty exemption and 100% refund of capital Investment in form of GST over 7 years.

Partially Integrated Manufacturing Facilities with inhouse material testing facility

JSAPL is a secondary steel manufacturer of long steel products. It has current installed capacity of 150000 MTPA each for TMT bar and MS Billets production. The company has semi-integrated manufacturing facility through hot rolling process and continuous casting technology where billets are produced first and in turn, while the billets are hot, are used for the production of TMT bars which saves on cost of a cycle of cooling and heating reducing the burning loss too. Further, the company has inhouse testing laboratories to keep check on the quality of products.

Analytical approach: Standalone**Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Criteria for short-term instruments](#)

[Criteria for assigning 'Outlook' or 'Credit Watch' to Credit Ratings](#)

[Rating Methodology: Manufacturing Companies](#)

[Rating Methodology: Steel Industry](#)

About the Company

Initially established as a partnership firm, 'Raviraj Rolling Mills', in the year 1987 by Late Omprakash Agrawal, Jalna Siddhivinayak Alloys Private Limited (JSAPL) was later incorporated as a private limited company on October 22, 1999, with change of name. The company is engaged in manufacturing of long steel products mainly MS Billets and TMT Bars. The company has recently completed an expansion project resulting in capacity augmentation from 1,08,000 metric ton per annum (MTPA) to 1,50,000 MTPA.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022	Q1FY23
Total operating income	285.37	255.57	Not Available	Not Available
PBILDT	21.10	21.44		
PAT	1.83	2.05		
Overall gearing (times)	1.88	1.75		
Interest coverage (times)	1.56	1.60		

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

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-Term Loan	-	-	-	September 2028	23.84	CARE BB-; Stable; ISSUER NOT COOPERATING*
LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	Not applicable	68.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee	-	-	-	Not applicable	6.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - LT-Proposed fund-based limits	-	-	-	Not applicable	20.00	CARE BB-; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of 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-Term Loan	LT	23.84	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (28-Dec-21)	-	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	68.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable / CARE A4 (28-Dec-21)	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (28-Dec-21)	-	-
4	Fund-based - LT-Proposed fund based limits	LT	20.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (28-Dec-21)	-	-

*Issuer did not cooperate; Based on best available information

Annexure 3: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1	Fund-based - LT-Proposed fund-based limits	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Fund-based - LT-Proposed fund-based limits	Simple

Annexure 4: 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 instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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