

## Jai Balaji Jyoti Steels Limited

August 07, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	55.97	CARE BB+; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	0.81	CARE BB+; Positive / CARE A4+	Reaffirmed; Outlook revised from Stable

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Jai Balaji Jyoti Steels Limited continue to be constrained by profitability being susceptible to volatility in the prices of raw materials, and cyclical nature associated with the steel industry. The ratings further take into account satisfactory financial performance in FY23 (refers to the period April 01 to March 31), although PBILDT margin witnessed moderation after substantial improvement in FY22. The ratings continue to derive strength from experienced promoters with presence for over two decades in the industry and satisfactory capacity utilization. Regular servicing of debt at group level shall remain crucial from credit perspective.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Sustaining the increased revenue above Rs.400 crore with sustained profitability.
- Sustaining the capital structure at around 1x with sustained improvement in total debt/GCA.

#### Negative factors

- Decline in scale of operations below Rs.350 crore and operating margins below 5%
- Deterioration in capital structure beyond 2x and Total Debt/GCA beyond 4.50x.
- Substantial deterioration in liquidity profile.

**Analytical approach:** Standalone

### Outlook: Positive

CARE has revised the outlook to 'Positive' from 'Stable' outlook in view of expected improvement in operating efficiency and margin with installation of iron ore washery and upcoming captive power plant (CPP). The outlook would be revised to 'Stable' if entity does not benefit from its completed and ongoing capex projects supporting its operating margin.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Profitability susceptible to volatility in the prices of raw materials

The basic raw materials for JBJSL are iron ore and coal. The prices of raw materials are highly volatile in nature due to commodity nature of product. With company lacking backward integration for both coal & iron ore, the company resorts to linkage with Mahanadi Coalfields Ltd. and Odisha Mining Corporation Ltd. and open market purchases for coal and iron ore. Nonetheless, the Company has backward integration in terms of sponge iron manufacturing facility, thus making it better placed than only billet producers.

##### Cyclical nature associated with the steel industry

Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key strengths

### Experienced promoters with presence for over two decades in the industry

JBJSI, incorporated in April 2003 and based in Sundargarh (Odisha), is a part of the Jai Balaji group. JBJSI is a closely held family managed company. The day-to-day affairs of the company are looked after by Mr. Aditya Jajodia (Managing Director) who is having rich experience of over 25 years in setting up and managing steel & allied companies. The rating also factors in the settlement reached with the lenders in the flagship company, Jai Balaji Industries Ltd. Regular servicing of debt at group level shall remain crucial from credit perspective.

### Satisfactory financial performance in FY23, albeit moderation in PBILDT margin

The company reported total operating income of Rs.487.40 crore in FY23 vis-a-vis Rs.474.06 crore in FY22 in view of increase in price of MS Billets and Sponge Iron, which offset the impact of decline in sales volume of both MS Billets and Sponge Iron in FY23 from FY22 levels. PBILDT margin moderated to 6.73% in FY23 from 9.73% in FY22 on account of increase in price of Coal and Iron ore which could not be fully passed on. The PBILDT margin is expected to witness improvement with the implementation of cost cutting measures like installation of iron ore washery and captive power plant (CPP).

### Ongoing capex funded out of internal accruals

Power cost is the second major cost in steel plant after raw material cost constituting ~15% of its total cost of sales. The Company is setting up 10MW Captive power plant, which will enable it to use its waste gases of the DRI plant. The company is currently purchasing power from Tata Power Western Odisha Distribution Limited. The CPP will reduce the cost of power by 40%-50% going forward. The total cost of the project is around 52.60 crore which is almost fully incurred, and it is expected to be commissioned by August 2023. The project is funded from the internal accruals of the company.

### Satisfactory capacity utilization

The capacity utilisation of Sponge Iron and MS Billet for FY23 stood satisfactory at 84% and 76% respectively as against 85% and 82% respectively in FY22.

### Satisfactory capital structure and debt protection metrics

The overall gearing ratio of the entity has improved from 1.14x as on March 31, 2022, to 1.04x as on March 31, 2023, on account of increase in net worth with accretion of profits to reserves, though the working capital utilisation has increased substantially. Total debt/GCA though deteriorated, remained comfortable at 4.02x in FY23 as against 1.80x in FY22, as company has witnessed significant reduction in GCA in FY23 which was majorly on account of Rs. 15.75 crore booked as profit on sale of short-term investment in FY22.

### Liquidity: Adequate

Adequate liquidity is marked by gross cash accruals of Rs 25.12 crore vis-à-vis nil debt repayment obligations and cash balance (including short term deposits) of Rs.1.54 crore and investments of Rs. 4.23 crore as on Mar 31, 2023. The average utilization of the fund-based bank limits stood low at approximately 55% in last 12 months ended June 30, 2023, supported by above unity current ratio. The working capital cycle of the company was comfortable and stood at 54 days in FY23 (45 days in FY22).

### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Steel](#)

[Policy on Withdrawal of Ratings](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

JBJSI is engaged into manufacturing of sponge iron and Mild Steel billets with installed capacity of 1,20,000 MTPA and 1,11,420 MTPA respectively. The manufacturing facility is located in Sundargarh, Odisha. Jai Balaji group is engaged in manufacturing of sponge iron, pig iron, ferro alloys, billets, TMT bars & rods, DI Pipes and copper rods in various parts of Eastern India. The other major companies belonging to the promoters is Jai Balaji Industries Ltd., engaged in manufacturing of iron and steel

products and Chandi Steels Industries Limited engaged in niche product like Cathode Collector Bar, Anode Bar, Copper Inserted Cathode Bar Assembly, Anode Stub and Grinding Media Rod for the aluminium, mineral and mining industry.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Prov.)	3MFY24 (U.A)
Total operating income	474.06	487.40	116.00
PBILDT	46.12	32.81	NA
PAT	47.31	15.12	NA
Overall gearing (times)	1.14	1.04	NA
Interest coverage (times)	7.24	5.25	NA

A: Audited; Prov.: Provisional; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

#### Status of non-cooperation with previous CRA:

Acuite has continued to put the rating under Non-Cooperation vide press release dated May 11, 2023, in view of requisite information not provided by the company.

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	55.97	CARE BB+; Positive
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	0.81	CARE BB+; Positive / CARE A4+

**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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	55.97	CARE BB+; Positive	-	1)CARE BB+; Stable (07-Oct-22) 2)CARE BB-; Stable (06-Apr-22)	1)CARE B+; Stable (13-Sep-21)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	0.81	CARE BB+; Positive / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (07-Oct-22) 2)CARE BB-; Stable / CARE A4 (06-Apr-22)	1)CARE B+; Stable / CARE A4 (13-Sep-21)	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Lender details**To view the lender wise details of bank facilities please [click here](#)

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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