JTL Industries Limited

October 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	-	-	Reaffirmed at CARE A-; Stable / CARE A2+ and withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the outstanding rating of CARE A-; Stable/CARE A2+ assigned to the bank facilities of JTL Industries Limited (JTL) and simultaneously withdrawn with immediate effect. The above action has been taken at the request of the company and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings.

The reaffirmation of the ratings assigned to the bank facilities of JTL Industries Limited (JTL) continues to derive strength from its experienced promoters having long-established track record of operating in the steel pipes industry. The ratings also take note of the improvement in the business and financial risk profiles of the company during FY23 (refers to the period April 01 to March 31) and Q1FY24 (refers to the period April 01 to June 30) characterised by growth in total income, profitability, net worth base and debt coverage indicators owing to healthy demand of the company's products and funds raised by the company through issue of convertible share warrants. The ratings also continue to take comfort from the moderate operating cycle of the company. These rating strengths, however, continue to remain constrained by the negative cash flow from operations (CFO) reported by the company owing to rise in inventory/receivables and other current assets in tandem with growing scale of operations, exposure of the company towards volatility in raw material prices and presence in fragmented and competitive nature of steel pipes industry. The ratings are also constrained by the significant capacity expansion plans with a total outlay of close to ₹500-550 crore increasing the capacity from 600,000 metric tonnes per annum (MTPA) as on March 31, 2023 to 1,000,000 MTPA over a period of next three years through FY26 and addition of value-added products. The capacity expansion shall contribute to improvement of revenue and profitability margins of the company going forward. While the part of capex will be funded through issue proceeds of convertible share warrant, CARE Ratings expects the remaining to be funded entirely through internal accruals over the next three years. The company may be required to raise debt in case of any shortfall in internal accruals which may adversely impact the credit risk profile and liquidity position of the company and remain a key rating monitorable.

Analytical approach: Standalone

Detailed description of the key rating drivers:

Key strengths

Experience of the promoters and established track record of operations

JTL was started by Madan Mohan Singla (promoter and managing director), having experience of more than three decades in the steel tubes & structural steel industry. The company is actively managed by his son, Dhruv Singla (Whole-time director), having industry experience of over 10 years, and his nephew, Pranav Singla (Whole-time director). The operations of the company are further 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.

Improvement in scale of operations and profitability during FY23

The company has reported growth of 14.28% in FY23 to ₹1,552.16 crore over ₹1,358.18 crore in FY22. The growth is largely attributable towards increased sales volumes driven by healthy demand for the company's products, in line with increasing construction and infrastructure activities. The revenue comprises approximately 70% contribution from commercial-grade products and the remaining 30% from value-added products. Furthermore, the PBILDT margins also improved from 6.79% in FY22 to 8.58% in FY23 owing to benefits of economy of scale of operations and PBILDT per ton reported at ₹5,539 in FY23.

During Q1FY24, the company has achieved total operating income (TOI) of ₹505.57 crore compared with ₹370.34 crore in corresponding period of FY23 thereby reporting growth of 36.52% on y-o-y basis coming from healthy sales volumes of 77,342 tons compared with 50,720 tons in Q1FY23. Going forward, CARE Ratings will continue to monitor JTL's ability to achieve efficient utilisation of capacities, which shall be critical for growth of the company.

Comfortable financial risk profile with sizeable net worth base

The financial risk profile of the company remained comfortable with healthy net worth base of ₹407.11 crore as on March 31, 2023, which increased from ₹197.67 crore as on March 31, 2022 and comfortable overall gearing of 0.26x as on March 31, 2023 improved from 0.48x as on March 31, 2022, mainly on account of funds raised by the company through convertible share warrants, healthy profit generation during the year and gradual reduction of WC utilisation. The interest coverage also improved from 12.12x in FY22 to 20.97x in FY23 on account of healthy profitability. Furthermore, other debt coverage indicators including TD/PBILDT and TD/GCA also remained satisfactory and stood at 0.79x as on March 31, 2023 (PY: 1.02x) and 1.10x as on March 31, 2023 (PY: 1.47x), respectively.

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

Moderate operating cycle
The operating cycle of the company stands moderate at around 55 days as on March 31, 2023 (PY: 54 days) with average collection period of 27 days as on March 31, 2023, slightly improved from 35 days as on March 31, 2022, while the creditor's period is around 6 days as on March 31, 2023, compared with 11 days as on March 31, 2022.

Key weaknesses

Project execution risk
The company has significant capacity expansion plans with a total outlay of nearly ₹500-550 crore increasing the capacity from 600,000 metric tonnes per annum (MTPA) as on March 31, 2023 to 1,000,000 MTPA over a period of next three years through FY26 and addition of value-added products. The capacity expansion shall contribute in the improvement of revenue and profitability margins of the company, going forward. While the part of capex will be funded through remaining issue proceeds of convertible share warrant and balance is projected to be funded entirely through internal accruals over the next three years. CARE Ratings notes that the company may be required to raise debt in case of any shortfall in internal accruals which may adversely impact the credit risk profile and liquidity position of the company and remain a key rating monitorable.

Exposure towards volatility in raw material prices
The major raw material used by the company for manufacturing steel tubes is hot rolled coil (HRC). The total cost of materials consumed constitutes around 90-95% of the total cost of sales. CARE Ratings notes that the prices of HR sheets/coils are linked to the 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.

Fragmented and competitive nature of steel pipes industry
The steel tubes & pipes industry is highly competitive and fragmented due to presence of various organised and unorganised players and expanding applications of various types of steel pipes. Although, over the years, the industry has become more organised with the share of unorganised players reducing, the margins continue to be under pressure due to fragmentation of the industry. The decreasing share of unorganised 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 the electrical resistance welding (ERW) segment, which has been the most fragmented segment historically. On the other hand, 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.

Liquidity: Adequate

The liquidity is marked by expected cash accruals of ₹127 crore in FY24 against nominal repayment obligation of ₹2.12 crore. The liquidity is further aided by free cash and liquid investments of ₹20.10 crore as on June 30, 2023. With a gearing of 0.26x as on March 31, 2023, the company has sufficient gearing headroom, to raise additional debt for its capex requirements. Its unutilised bank lines of more than ₹91 crore as on June 30, 2023, provides adequate buffer to meet its incremental working capital needs over the next one year.

Environment, social, and governance (ESG) risks: The carbon-intensive nature of pipe making and the associated greenhouse gas emission, to combat the same, JTL has implemented a company-wide initiative involving executives, management and operations personnel to identify and share best practices for reducing energy intensity and CO_2 production to minimise the environmental footprint and promote sustainable practices. In order to promote the overall development of the company's employees and local workers, JTL consistently provides additional training and skill development opportunities. JTL has appointed three independent board members who diligently oversee all aspects of its business operations.

Applicable criteria

Policy on Withdrawal of Ratings
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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

JTL Industries Limited (JTL), erstwhile known as JTL Infra Limited, 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 the manufacturing and export of black and galvanised electric resistance welded (ERW) steel pipes and tubes through its four manufacturing units located at Derabassi (Punjab), Mangaon (Maharashtra), Mandi (Punjab), and Raipur (Chhattisgarh) with aggregate installed capacity of 600,000 MTPA as on March 31, 2023 (PY: 400,000 MTPA). During FY23, the merger of Chetan Industries Limited into JTL was completed vide NCLT order dated March 30, 2023, and has been effective from April 01, 2021.

Brief Financials (₹ crore)	March 31, 2022 (A) (Reinstated)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,358.18	1,552.16	505.57
PBILDT	92.17	133.12	36.30
PAT	61.06	90.12	25.37
Overall gearing (times)	0.48	0.26	Not available
Interest coverage (times)	12.12	20.97	29.21

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Infomerics and India Ratings have conducted the review on the basis of best available information and have classified JTL Industries Limited as "Not Cooperating" vide its press release dated September 19, 2022 and July 24, 2023, respectively.

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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	0.00	Withdrawn

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	-	-	1)CARE A-; Stable / CARE A2+ (06-Sep-23)	1)CARE A-; Stable / CARE A2+ (05-Sep-22)	-	-
2	Commercial paper-Commercial paper (Carved out)	ST	-	-	1)Withdrawn (30-Aug-23)	1)CARE A2+ (05-Sep-22)	-	-

*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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	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 for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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