# Jaihind Steel Private Limited

September 03, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 98.87 (Enhanced from 90.44) | CARE BB+; Stable | Revised from CARE BBB-; Stable |
| Long Term / Short Term Bank Facilities | 70.00 (Enhanced from 64.00) | CARE BB+; Stable / CARE A4+ | Revised from CARE BBB-; Stable / CARE A3 |
| Short Term Bank Facilities | 65.00 (Reduced from 85.00) | CARE A4+ | Revised from CARE A3 |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Revision in rating assigned to the bank facilities of Jaihind Steel Private Limited (JHSPL) factors in the weaker than envisaged operational performance of the group in FY24 (refers to the period from April 01 to March 31) which was marked by inventory losses on back of declining steel prices resulting in moderation in the Profitability margins and lower cash accruals. The rating also takes into account the deterioration in the financial risk profile of the group during FY24 which has led to moderation in both capital structure and Debt protection metrices.

The ratings continue to be remain constrained by exposure to volatile steel prices and fragmented nature of steel trading industry leading to intense competition. The ratings however derive strength from the vast experience of its promoters and the long track record of the group in the steel trading business, well-established network of dealers and suppliers, and moderately diversified product portfolio.

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

**Positive factors**

- Consistent growth in the scale of operations by diversifying its geographical presence.
- Sustainable improvement in the operating margins upward of 3%.

**Negative factors**

- Substantial decline in the volumes below the envisaged levels.
- Deterioration in the capital structure with overall gearing beyond 4.00x.
- Decline in the operating margins below 1% on a continuous basis.

## Analytical approach: Combined

For arriving at the ratings, CARE Ratings has taken a combined view of the four entities in the group viz, Jaihind Steel Private Limited (JHSPL), Jaihind Steel Tubes Private Limited (JSTPL), Jaihind Tubes Private Limited (JTPL), and Vyttila Steels Private Limited (VSPL), hereinafter referred to as "Jaihind Group". Earlier, a standalone approach was taken as JSTPL and JTPL which has been set up as part of backward integration were under project stage. Both these entities have now become operational with FY24 being the first full year of operations. All the entities are in similar lines of business, have common promoters, and share business synergies. JHSPL has also provided corporate guarantee to the bank facilities of JTPL and JSTPL.

## Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the experience of the promoters shall enable the group to sustain its business profile in the medium term.

## Detailed description of key rating drivers:

### Key weaknesses

**Weak operational performance in FY24**

While the total operating income (TOI) of the group remained largely stable at approx. ₹974 crore in FY24 (PY: ~₹1100 crore), the PBILDT margins have continued to remain impacted for the second consecutive year and stood further moderated to 0.57% in FY24 compared to 1.49% in FY23. The moderation in profitability has largely been on account of decrease in steel prices which has resulted in inventory losses to the group. Furthermore, owing to teething issues in the newly set up manufacturing facilities

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

in JTPL and JSTPL, the capacity utilisation was lower resulting in lower operational leverage and operating loss in manufacturing operations. In Q1FY24, the group has reported rebound in PBILDT margins to 2.52%. As the steel prices continue to remain under pressure, the sustenance of the margins reported in Q1FY25 and further increase in the same shall remain a key rating monitorable.

**Moderation in Capital Structure and Debt protection metrices.**
The capital structure of the group stood leveraged with moderation in overall gearing to 2.44x as on March 31, 2024, as against 1.87x as on March 31, 2023. The moderation in capital structure is attributed to higher utilisation of working capital limits to support manufacturing operations and at the same time deterioration in the net worth position led by PAT losses in JTPL and JSTPL. The debt coverage indicators also stood significantly impacted with moderation in Total Debt/PBILDT which stood at 47.40 times as on March 31, 2024. The interest coverage ratio also stood weak on account of increase in interest cost.

**Geographically concentrated operations and intense competition**
The group was incorporated in Kerala as a small spice trader, and today with its steel business, it caters to around 1,200 dealers in Kerala. Despite its long track record of operations, the company has a limited geographical presence with revenues confined to the state of Kerala, which exposes the company which contributes 95% to the group's TOI. Further the steel trading industry is characterised by low-entry barriers due to the minimal capex requirements and the easy availability of technology, which has resulted in a proliferation of several small and large traders spread across the country. The widespread demand for steel coupled with government side push in infrastructure development projects, has also led to increase in the number of players in this industry. The highly fragmented nature of the industry has resulted in intense competition within the industry, resulting in very thin profit margins.

**Susceptibility of margins to commodity Price risk and foreign exchange fluctuations**
Steel is a cyclical industry, strongly correlated to economic cycles since its key users, viz., construction, infrastructure, automobiles and capital goods, are heavily dependent on the state of the economy and any increase in prices without a corresponding increase in retail price can have an impact on the margins of the company. Jaihind group stocks up on inventory when it expects prices to increase and vice versa to gain from volatile prices. Any adverse movement in the prices of its traded goods may expose the group to the risk of volatility in profitability which is evident from the inventory losses incurred in the past two years. Another risk faced by the group is related to the foreign exchange risk, as around 40-50% of its total procurements are through imports. Any sharp volatility in currency exchange rates can expose the group to foreign exchange fluctuation, with the group keeping its position unhedged.

**Key strengths**

**Experience of the promoters and long operational track record**
The Jaihind group is promoted by Mahendra Kumar Jain, who initially set out to trade in spices, and later diversified into the trading of iron and steel products under Jaihind Traders (now JHSPL) in 1990. JHSPL is engaged in the trading of galvanised iron (GI) and galvanised pipes (GP), pre-painted coils, aluminium coils, structures, and thermo-mechanically treated (TMT) bars (including Vizag Steel), among others. The promoter has more than four decades of experience and has expanded the group to one of the major trading houses for metals like iron, steel, and aluminium, with more than 200 employees and around 1,200 clients. The day-to-day activities of the group are supervised by Divya Kumar Jain and Ankur Jain, sons of Mahendra Kumar Jain, who are supported by departmental heads. The group has recently partially integrated it operations by setting up two new entities i.e JTPL and JSTPL which are into manufacturing of Steel tubes, sheets and stainless steel products and primary supplies to JHSPL. The total installed capacity in JTPL is 80000 MTPA and in JSTPL is 6000 MTPA.

**Moderately diversified product portfolio**
Jaihind group has a versatile product base comprising GI and GP pipes, steel bars, coils, and structural iron and steel products such as steel tubes and stainless-steel sheets (beams, I-sections, hollow sections, rounds, flats, squares, etc). The group predominantly trades in GI and GP pipes and sheets, which contribute almost 60-70% of its revenue, while the revenue it generates from other products is relatively lower.

**Established network of dealers and suppliers**
The presence of the group in the iron and steel business for nearly two decades has enabled it to establish a strong network of more than 1,200 dealers and distributors all over Kerala. It generally sources pipes and coils, which form around 25-30% of its raw material requirements, from Vietnam and other South-East Asian countries. The major purchases of Jaihind group in the domestic market are done from established players like Chetna Steel Tubes Pvt Ltd, Apollo Tricoat Tubes Limited, ArcelorMittal Nippon Steel India Limited (CARE A1+).

**Liquidity**: Stretched

The liquidity of Jaihind group is characterised by tightly matched accruals vis-à-vis repayment obligations of around Rs.12-13 crore in FY25. The operating cycle stood moderated at 76 days (PY: 55 days) in FY24 due to stretched inventory position. The current ratio of the company was at 1.15x as on March 31, 2024. Group has lien marked deposits of Rs. 23.64 crore as on March 31, 2024. Company has sufficient unutilised bank limits to fund additional working capital requirements. The average utilisation remained moderate around 48% for the past 12 months ended June 30, 2024. The promoters are expected to support operations in case of any fund requirements.

## Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

## About the company and industry

### Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Services | Services | Commercial Services & Supplies | Trading & Distributors |

JHSPL is engaged in the trading of GI and GP pipes, pre-painted coils, aluminium coils, structural iron and steel products, and TMT bars (including Vizag Steel). The company was originally incorporated as a partnership company in the name of Jaihind Traders by Mahendra Kumar Jain in 1990 and later converted into a private limited company in July 2020. The group also comprises various smaller entities, of which JHSPL is the largest entity, accounting for almost 90% of the revenues of the group. Incorporated in 2001, VSPL is engaged in the trading of primarily structural iron and steel products. JSTPL is engaged in manufacturing of Stainless steel products such as Tubes, Sheets. JTPL is engaged in manufacturing of steel tubes.

| Brief Financials- JHSPL (₹ crore) | March 31, 2023 (A) | March 31, 2024 (P) | Q1FY25 (P) |
|---|---|---|---|
| Total operating income | 1064.30 | 915.19 | 202.56 |
| PBILDT | 17.38 | 8.58 | 5.11 |
| PAT | 5.59 | 0.31 | NA |
| Overall gearing (times) | 1.93 | 2.38 | NA |
| Interest coverage (times) | 1.62 | 0.56 | NA |

A: Audited, P: Provisional, NA: Not available; Note: these are latest available financial results

| Brief Financials- Combined (₹ crore) | March 31, 2023 (UA) | March 31, 2024 (UA) | Q1FY25 (P) |
|---|---|---|---|
| Total operating income | 1099.59 | 973.94 | 314.61 |
| PBILDT | 16.42 | 5.54 | NA |
| PAT | -0.31 | -19.92 | NA |
| Overall gearing (times) | 1.87 | 2.44 | NA |
| Interest coverage (times) | 1.49 | 0.28 | NA |

UA: Unaudited, P: Provisional, NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 | | - | - | - | 35.00 | CARE BB+; Stable |
| Fund-based - LT-Cash Credit | | - | - | - | 55.00 | CARE BB+; Stable |
| Fund-based - LT-Term Loan | | - | - | December, 2026 | 8.87 | CARE BB+; Stable |
| Fund-based/Non-fund-based-LT/ST | | - | - | - | 70.00 | CARE BB+; Stable / CARE A4+ |
| Non-fund-based - ST-Letter of credit | | - | - | - | 65.00 | CARE A4+ |

## Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Term Loan | LT | 8.87 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (28-Jun-23) | 1)CARE BBB-; Stable (07-Jun-22) | - |
| 2 | Fund-based - LT-Cash Credit | LT | 35.00 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (28-Jun-23) | 1)CARE BBB-; Stable (07-Jun-22) | - |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | 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 |
| 3 | Fund-based - LT-Cash Credit | LT | 55.00 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (28-Jun-23) | 1)CARE BBB-; Stable (07-Jun-22) | - |
| 4 | Non-fund-based - ST-Letter of credit | ST | 65.00 | CARE A4+ | - | 1)CARE A3 (28-Jun-23) | 1)CARE A3 (07-Jun-22) | - |
| 5 | Fund-based/Non-fund-based-LT/ST | LT/ST | 70.00 | CARE BB+; Stable / CARE A4+ | - | 1)CARE BBB-; Stable / CARE A3 (28-Jun-23) | - | - |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Fund-based/Non-fund-based-LT/ST | Simple |
| 4 | Non-fund-based - ST-Letter of credit | Simple |

**Note on complexity levels of 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 clarifications.

**Annexure-5: Lender details**

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

## Contact us

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**About us:**
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