Jagdamba Steels

December 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2.68	CARE BB+; Stable	Assigned
Long Term / Short Term Bank Facilities	63.06 (Enhanced from 15.00)	CARE BB+; Stable / CARE A4+	Rating removed from ISSUER NOT COOPERATING category and LT rating upgraded from CARE B-; Stable and ST rating assigned
Short Term Bank Facilities	1.26 (Reduced from 3.00)	CARE A4+	Rating removed from ISSUER NOT COOPERATING category and Upgraded from CARE A4

Details of instruments/facilities in Annexure-1.

In the absence of minimum information required for the purpose of rating, earlier CARE Ratings Limited was unable to express an opinion on the ratings of Jagdamba Steels and in line with the extant SEBI guidelines, CARE Ratings Limited downgraded the ratings of bank facilities of the Firm to 'CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING'. However, the Firm has now submitted the requisite information to CARE Ratings Limited. CARE Ratings Limited has carried out a full review of the ratings and the ratings now stand at 'CARE BB+; Stable / CARE A4+'.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Jagdamba Steels continue to be constrained by low profitability margins, average financial risk profile reflected by moderate gearing and working capital intensive nature of operations with modest liquidity profile. The ratings are also constrained by highly fragmented nature of business and inherent cyclicality of aluminium & steel industry. However, the ratings derive strength from extensive experienced partners of the firm with long track record of operations, dealership arrangements with reputed suppliers, healthy revenue profile and established sourcing and marketing arrangements. Going forward the ability of the firm to increase its scale of operations and profitability while effectively managing its working capital requirements and improving overall gearing will remain key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the firm to sustain its TOI beyond ₹1,500 crore while maintaining the PBILDT margin at 1.25% or above.
- Improvement in interest coverage ratio (PBILDT/Interest) beyond 3.00 times or above.
- Improvement in TOL/TNW below 1.50 times on sustainable basis.

Negative factors

- Deterioration in TOL/TNW beyond 2.50 times on sustained basis.
- Notable decline in TOI or profitability, going forward.
- Any substantial withdrawals from capital account resulting into deterioration in capital structure.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the extensive experience of the promoters in the industry and able to maintain healthy revenue profile mainly due to dealership arrangements with reputed players such as Steel Authority of India Limited (SAIL) and National Aluminium and company Limited (NALCO).

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

Detailed description of key rating drivers:

Key weaknesses:

Average financial risk profile with low net-worth base

The firm is having average financial risk profile, represented by moderate overall gearing of 1.58 times as on March 31, 2024, though improved from 1.82 times as on March 31, 2023. The total debt/GCA has improved to 9.08 times as of March 31, 2024, from 12.06 times as March 31, 2023, due to slight improvement in GCA, with PBILDT interest coverage ratio of 1.96 times (PY: 1.80 times). The net-worth base stands modest at Rs. 31.38 crores as on March 31, 2024 (PY: Rs. 27.26 crores).

Highly competitive nature of the industry

The steel industry is highly competitive due to the presence of various organized and unorganized players and limited product diversity due to the commodity nature of products. Although, over the years the industry has become more organized with the share of unorganized players reducing, margins continue to be under pressure due to the fragmentation of the industry. The profitability margins of Jagdamba have been low historically owing to the trading nature of the business and intense market competition given the highly fragmented nature of the industry. Owing to the small scale of operations, it has high risk from the competition prevailing in the market.

Fortunes linked with steel industry which is cyclical in nature

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. The performance of the steel sector is linked to the fortune of infrastructure sector, which, in turn, is dependent on the macro-economic condition. Jagdamba’s products are mainly used in the construction and infrastructure sector which is currently exhibiting slow growth.

Inherent Risk associated with the constitution of firm

The firm being a partnership firm is exposed to inherent risk of capital withdrawal by partners due its nature of constitution. Any substantial withdrawals from capital account would impact the net worth and thereby the gearing levels.

Key strengths:

Experienced partners with long track record of operations

Jagdamba Steels was established in 1974 with Mr. P.D. Agarwal and Mr. Ajay Kumar Garg as partners. It is presently being managed by Mr. P.D. Agarwal, Mr. Rakesh Agarwal and Mr. Ankit Garg. Mr. P.D. Agarwal is associated with the trading business for 50 years and Mr. Rakesh Agarwal is associated for 28 years. The firm has long track record in trading business which helps it better understand the peculiarities of steel/aluminium trading business and provides it advantages of long-standing association with customers and suppliers.

Healthy revenue profile with thin profitability margins due to the trading nature of business

The firm has achieved TOI of Rs. 1,381.77 crores in FY24, compared to Rs. 976.05 crores in FY23, marking growth of 41.56%. The TOI was largely supported by volume growth in the Aluminium products, despite a decrease in sales realization in FY24. The PBILDT margins stand at 0.81% in FY24 from 0.94% in FY23, the moderation was largely on account of global oversupply & cautious inventory management against lower demand, leading to prices under pressure. The firm has achieved TOI of Rs. 804.38 crores during H1FY25 with PBILDT margin of 0.80%, the improvement in TOI was largely due to increase in the realization of Aluminium products along with volume growth.

Established Dealership agreements

The firm is a distributor for Steel Authority of India (SAIL) for steel products (mainly TMT bars) and for National Aluminium Company Limited (NALCO) for aluminium products (ingots and wires), under a Memorandum of Understanding (MOU). It has been dealing with SAIL since 2005 and with NALCO since 2016. Jagdamba Steels holds exclusive dealership rights with SAIL for seven districts, including Faridabad, Rewari, and Palwal, and has dealership rights across India with NALCO. As per MOU with NALCO, there is a mandatory minimum offtake requirement of 4,100 MT per month. For SAIL, the MOU specifies a recommendatory minimum offtake requirement of 2,250 MT per month.

Liquidity: Adequate

Firm has adequate liquidity marked with expected gross cash accruals of around Rs. 6.13 crores in FY25 against scheduled debt repayment of Rs. 1.69 crores. The operations of the firm are working capital intensive and its working capital requirements are met largely through bank borrowings. The firm had free cash and bank balance of Rs. 0.16 Crores as on October 31, 2024. The firm's average fund base utilization remained low at 60-65% for the trailing 12 months ending October 2024, leaving the liquidity buffer around over Rs. 19 crores.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Non-Ferrous Metal
Iron & Steel
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Jagdamba Steels (Jagdamba) was established in 1974 as a partnership firm, with Mr. Purshotam Das Agarwal, Mr. Rakesh Agarwal and Mr. Ankit Garg as the partners. Jagdamba is engaged in trading steel products such as TMT bars and aluminium products like aluminium wire rods and ingots. The firm is a distributor for Steel Authority of India (SAIL) for steel products (mainly TMT bars) and for National Aluminium Company Limited (NALCO) for aluminium products (ingots and wires), under a Memorandum of Understanding (MOU).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	976.05	1381.77	804.38
PBILDT	9.18	11.16	6.47
PAT	3.87	5.27	3.13
Overall gearing (times)	1.82	1.58	1.68
Interest coverage (times)	1.80	1.96	Not Available

A: Audited UA: Unaudited; 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

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	30-05-2025	2.68	CARE BB+; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	63.06	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	1.26	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/ ST-Working Capital Limits	LT/ST	63.06	CARE BB+; Stable / CARE A4+	1)CARE B-; Stable; ISSUER NOT COOPERATING* (09-Sep-24)	1)CARE B-; Stable; ISSUER NOT COOPERATING* (10-Aug-23)	1)CARE B-; Stable; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE B; Stable; ISSUER NOT COOPERATING* (15-Jul-21)
2	Non-fund-based - ST-Bank Guarantee	ST	1.26	CARE A4+	1)CARE A4; ISSUER NOT COOPERATING* (09-Sep-24)	1)CARE A4; ISSUER NOT COOPERATING* (10-Aug-23)	1)CARE A4; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE A4; ISSUER NOT COOPERATING* (15-Jul-21)
3	Fund-based - LT-Term Loan	LT	2.68	CARE BB+; Stable	-	-	-	-

*Issuer did not cooperate; based on best available information.
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-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

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

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

Contact Us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Puneet Kansal Director **CARE Ratings Limited** Phone: +91-12-0445 2018 E-mail: puneet.kansal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Akhil Kumar Associate Director **CARE Ratings Limited** Phone: +91-12-0445 1986 E-mail: akhil.kumar@careedge.in Mohit Gupta Analyst **CARE Ratings Limited** E-mail: mohit.gupta@careedge.in

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.

For detailed Rationale Report and subscription information, please visit www.careedge.in