

Jyoti Industrial Corporation (Revised)

August 24, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	90.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total Bank Facilities	90.00 (₹ Ninety Crepe Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Jyoti Industrial Corporation (JIC) is primarily constrained on account of small though improving scale of operations backed by revival in demand and increase in steel prices, thin profitability margin, leveraged capital structure and weak coverage indicators. Further, the rating is also constrained by highly competitive and cyclical nature of the industry and volatility in prices of trading goods. The credit profile derives comfort from experienced proprietor coupled with long track record of operations, moderate operating cycle, and well-developed network of suppliers and customers.

Rating Sensitivities

Positive Factors

- Improvement in scale of operations to around Rs. 600.00 crore and above on sustained basis.
- Improvement in the capital structure as marked by overall gearing ratio of below 2.00x.
- Improvement in profitability margins as marked by PBILDT and PAT margin above 4.00% and 2.00%

Negative Factors

- Any unforeseen large debt-funded capex or acquisitions thereby impacting the overall capital structure to above 15.00x.
- Any sizeable de-growth in scale of operations from present level

Detailed description of the key rating drivers

Key Rating Weaknesses

Small though improving scale of operations: JIC's scale of operations has remain small though improve as marked by total operating income of Rs. 326.58 crore during FY22 (based on provisional results from April 01, 2021 to March 31, 2022) as against Rs. 131.28 crore during FY21 on the back of demand revival in the domestic market coupled with significant increase in steel prices due to demand- supply dynamics leading to improvement in realization per tonne sequentially. Further, the firm has achieved total operating income of ~Rs. 172.40 crore during 3MFY23 (refers to the period from April 01, 2022 to June 30, 2022) and is expected to clock total operating income of Rs. 600.00 crore in FY23.

Thin profitability margins: The profitability margin of the firm continues to remain on lower side owing to the trading nature of business where the value addition is inherently low. The Profitability margins of the firm remain low as marked by PBILDT margin and PAT margin of 0.93% and 0.32% during FY22. In 3MFY23 the firm generate PBILDT margin of 1.09% and PAT margin of 0.40%.

Leveraged capital structure and weak coverage indicators: The capital structure of the firm stood leveraged as on the past four balance sheet dates ending March 31, '18-'22 on account of high debt levels against low net worth base. Overall gearing (Including Acceptances / Creditors on LC) ratio stood at 13.77x as on March 31, 2022 (Prov.) showing deterioration

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

from 4.86x as on March 31, 2021, mainly on account of increased reliance on external borrowings to fund the incremental working capital requirements.

Highly competitive and cyclical nature of industry: The steel industry is highly competitive due to presence of various organized and unorganized players and limited product diversity due to commodity nature of products. Although over the years, industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry. Also, the steel industry is sensitive to shifting business cycles including changes in general economy, interest rates and seasonal changes in demand and supply conditions in market.

Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch.

Raw material price fluctuation risk: The firm is exposed to the raw material price volatility risk due to the volatility experienced in the prices of metal products and their prices fluctuates rapidly due to demand supply gap. Raw materials such as aluminium scraps constitute a major component of the raw material of the total cost of production; hence profitability margins are susceptible to fluctuation in raw material prices. Though, the firm tries to pass on the price volatility to the end users however, any sudden adverse fluctuations in raw material prices which the firm is unable to pass on to its customers completely may adversely affect the profitability of the firm.

Key Rating Strengths

Experienced proprietor coupled with long track record of operations: Jyoti Industrial Corporation is established in the year 2000 by Mr. Davinder Kalra. Mr. Karla is graduate and has around three decades of experience in the industry. Mr. Karla looks after the day-to-day operations of the firm. He is also supported by experience professional persons who looks after the sales, purchases, and finance department. JIC's has been operating in this business for more than two decades which will aid in establishing a healthy relationship with both customers and suppliers.

Moderate operating cycle: The operating cycle of the firm stood moderate as marked by 41 days for FY22. The firm maintains adequate inventory to ensure prompt delivery to its customers resulting in an average inventory holding period of around 26 days for FY22. Further, the firm offers credit period of around 1-2 month to its customers and receives payable period of around 10-15 days from its suppliers. Thus, the average utilization of the working capital limits remained around 80% for the past 12 months period ending March 31, 2022.

Well-developed network of suppliers and customers: JIC has been successful in establishing a network of suppliers and customers by virtue of its long presence in the steel sector. JIC procures majority of its trading materials from established players and sell its products to steel makers and end-users.

JIC is an authorized dealer of Posco India Processing Private Limited, Arcelor Mittal Nippon Steel Limited and Steel Authority of India Limited (CARE AA; Stable/CARE A1+). JIC has entered into an MOU with its suppliers for supply of steel products. The purchases are made on the basis of MOU signed for each product differently. JIC deals with multiple products under its umbrella viz. Galvanized Iron sheets, pre-painted galvanised iron sheet (PPGI), Galvanized Plain Skin Pass iron sheet (GPSP), etc.

Liquidity: Stretched

The liquidity position remains stretched as marked by high utilisation of working capital limits of around 80% for the past 12 month's period ending March 2022. Further, the firm also has low cash & bank balances which stood at Rs. 0.26 crore as on March 31, 2022. Furthermore, the current ratio and quick ratio also stood low at 1.06 times and 0.47 times as on March 31,

2022 (Prov.). However, the firm is expected to envisage gross cash accrual of Rs. 2.50 crore during FY23 against repayment obligation of Rs. 1.00 crore in same year.

Analytical approach: Standalone

Applicable Criteria:

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Steel](#)

[Wholesale Trading](#)

About the Firm

Haryana based; Jyoti Industrial Corporation (JIC) is a proprietorship firm established on November 28, 2000. The firm has a long track record of over two decades in wholesale trading of iron and steel products. The firm is authorized dealer of three main suppliers namely, Posco India Processing Private Limited, Arcelor Mittal Nippon, Steel Limited and Steel Authority Of India Limited (CARE AA; Stable/CARE A1+) and sell their products PAN India. JIC deals with multiple products including Galvanized Iron sheets, pre-painted galvanised iron sheet (PPGI), Galvanized Plain Skin Pass iron sheet (GPSP), etc.

They have two units; one is in Mumbai and another unit is in Faridabad. The firm is spearheaded by Mr. Davinder Kalra, the proprietor of the firm and has twenty-five years of experience in the same line of business.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (UA)	3MFY23 (Prov.*)
Total operating income	131.28	326.58	172.40
PBILDT	1.23	3.04	1.89
PAT	0.41	1.05	0.68
Overall gearing (times)	4.86	13.77	11.59
Interest coverage (times)	1.55	1.59	2.12

A: Audited; UA: Unaudited; Prov.: Provisional

*Refers to the period from April 01, 2022 to June 30, 2022

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

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 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-Electronic Dealer Financing Scheme		-	-	-	44.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	December 2027	2.92	CARE B+; Stable
Fund-based - LT-Proposed fund-based limits		-	-	-	43.08	CARE B+; Stable

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 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-Electronic Dealer Financing Scheme	LT	44.00	CARE B+; Stable				
2	Fund-based - LT-Term Loan	LT	2.92	CARE B+; Stable				
3	Fund-based - LT-Proposed fund-based limits	LT	43.08	CARE B+; Stable				

*Long term/Short term.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Electronic Dealer Financing Scheme	Simple
2	Fund-based - LT-Proposed fund-based limits	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: 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 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

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Shivam Tandon
Phone: +91- 11-4533 3263
E-mail: shivam.tandon@careedge.in

Relationship contact

Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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