March 21, 2024

Jaideep Ispat & Alloys Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-Based – Cash Credit	197.00	197.00	[ICRA]A+(Stable); reaffirmed
Long Term – Fund Based - Term Loan	160.65	111.45	[ICRA]A+(Stable); reaffirmed
Short Term – Non-Fund Based	39.00	39.00	[ICRA]A1; reaffirmed
Long Term – Unallocated	0.35	68.55	[ICRA]A+(Stable); reaffirmed/ assigned for enhanced amount
Short Term - Fund Based (Bill Discounting)	-	15.00	[ICRA]A1; assigned
Total	**397.00**	**431.00**[1]	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings of Jaideep Ispat & Alloys Private Limited (JIAPL), ICRA has changed the analytical approach from standalone to consolidated, whereby the financials of its wholly-owned subsidiaries, Jaideep Steelworks India Private Limited (JSIPL) and Moira Welfare Foundation (MWF) have been consolidated with that of JIAPL. JIAPL has also extended corporate guarantee for the loan taken in its subsidiary, JSIPL.

The ratings reaffirmation continues to consider the long track record of the promoters in the TMT bar manufacturing business and an established market position of JIAPL's brand, Moira Sariya in Madhya Pradesh, supported by a strong distribution network, regular capacity addition and optimum utilisation of the same. The ratings also factor in the diversified product profile post addition of the wire rod plant in September 2021. In addition, widening of geographical reach in Gujarat and Rajasthan further strengthens the operating profile and provides revenue visibility. In FY2024, while the revenue is expected to remain at ~Rs. 2,700 crore, the operating margin is likely to be adversely impacted as scrap prices witnessed lower decline relative to the significant correction in TMT prices. Nonetheless, the overall financial risk profile remains comfortable with healthy cash accruals and comfortable debt protection metrics.

While reaffirming the ratings, ICRA also notes the capital expenditure plans of the Group in JSIPL, where it is setting up an Electrical Resistance Welding (ERW) tube mill project with a capacity of 1,50,000 MTPA at a project cost of around Rs. 117 crore, funded through term loan of Rs. 65 crore and the remaining by promoters' loan/equity. The company will start operation in three phases and Phase 1 is expected to commence in March 2024. Timely commissioning of the plant without cost overrun and stabilisation will be a key ratings factor. The ratings, however, are constrained by the cyclicality inherent in the steel business and intense competition in the industry, which makes margins and cash flows vulnerable to fluctuations in prices and demand. The company is also exposed to forex fluctuation risk as a portion of the raw materials is imported, however, prudent hedging policy adopted by the company (80% exposure remains hedged) provides comfort. Lack of vertical integration of operations and absence of captive power plant expose the company's profits to fluctuations in raw material prices and result in lower control over the cost structure. However, availability of power at subsidised rate provides comfort to an extent.

[1] *The company has provided enhancement mandate of Rs. 83 crore and subsequently, requested reduction in surveillance limit from existing Rs. 397 crore to Rs. 348 crore. Hence, total limits to be rated stands at 431 crore (Rs. 348 crore + Rs. 83 crore).*

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that JIAPL will be able to improve its penetration in new markets and increase sales volume from the enhanced capacities, which will generate healthy cash flows, going forward.

Key rating drivers and their description

Credit strengths

Conservative capital structure and healthy debt coverage metrics, however, expected to moderate in FY2024 – The financial profile of the Group is characterised by a favourable capital structure with a gearing at 0.41 times, healthy coverage indicators with an interest coverage at 10.4 times and debt service coverage ratio (DSCR) of 4.1 times in FY2023. However, with decline in profitability, the coverage indicators are expected to deteriorate a bit, although the same are expected to remain comfortable.

Addition of new products and geographies supports revenue growth – JIAPL has been able to successfully diversify its product profile with commercial operations of the wire rod plant in September 2020, which has been stabilised and is running at high capacity utilisation in the current fiscal. It has also widened its geographical presence to Gujarat and Rajasthan, which aided in volume growth. The current capacity expansion is likely to support its volumes in the coming years.

Established distribution network of dealers, distributors and stockists – The company has a strong distribution network with over 550 dealers, which has enabled strong growth during the last four to five years. Among these dealers, approximately 250 are exclusive dealers, which deal only with the Moira brand. The company has also partnered with Ultra-tech Cement across the Ultra-tech Building Solutions (UBS) counters in Madhya Pradesh, Rajasthan and Gujarat.

Established track record of promoters in steel industry – The company's promoters have around three decades of experience in manufacturing ingots, billets, TMT bars and have also started selling wire rods. This has enabled the company to establish its brands, Moira Sariya and 24K, in Madhya Pradesh by setting up a strong distribution network. The company also sells billets and TMT bars in Gujarat and Rajasthan and has been receiving good response.

Credit challenges

Moderation in operating profits in the current fiscal – The revenues in the current year are expected to witness muted growth at around Rs. 2,700 crore, backed by volume increase. However, the company's sales realisation declined, in line with the correction in steel prices. The operating margins are expected to be lower than the previous year owing to reduced spread as increased supply/competition is putting pressure on the company's margins.

Inherently moderate profitability due to highly commoditised products – Limited value addition, commoditised nature of the offering and price-based competition in the TMT bars industry keep the operating profitability under check. The profitability is also vulnerable to volatility in the prices of key raw materials due to cyclicality associated with the steel industry. However, the risk is mitigated to some extent as the company quotes the price of finished products on the basis of the weighted average cost of raw materials procured.

Lack of vertical integration – Due to lack of vertical integration and absence of any captive source of raw material and power, the company is exposed to price and supply risks, which lead to lower control over the cost structure.

Exposed to cyclicality in the steel industry and forex risks – The steel industry is cyclical and intensely competitive, as a result of which its margins and cash flows remain vulnerable to fluctuations in prices and demand. The company is also exposed to forex fluctuation risk as a portion of its raw materials is imported. However, prudent hedging policy adopted by the company (80% exposure remains hedged) provides comfort.

Liquidity position: Adequate

The Group's liquidity position is **adequate** with strong cash accruals of over ~Rs. 100 crore from business operations in FY2023 along with moderate unutilised working capital limits. Moreover, it has healthy cash flow from operations, which is sufficient to cover its debt repayment obligations.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if JIAPL can significantly improve the profitability level, leading to a further strengthening of its credit metrics. A specific credit metric for ratings upgrade would be total debt/OPBIDTA remaining below 1.5 times on a consistent basis.

Negative factors – ICRA may downgrade JIAPL's ratings if weakening of the steel industry adversely impacts the company's revenues and cash accruals on a sustained basis. A specific credit metric for ratings downgrade would be DSCR of less than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Iron & Steel
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JIAPL as enlisted in Annexure -II

About the company

JIAPL manufactures billets, TMT bars and wire rods from its plant at Pithampur (Madhya Pradesh). The company, along with its manufacturing facilities, was taken over by the Singhania and Todi families in 2006. It has a manufacturing capacity of 5,85,000 metric tonnes per annum (MTPA) for billets and 6,25,000 MTPA for TMT bars/ wire rods. The company uses a mix of scrap and sponge iron to manufacture billets and TMT bars/ wire rods. JIAPL sell sits products under the brand name, Moira Sariya and 24K, through a network of distributors in Madhya Pradesh.

Key financial indicators

JIAPL	FY2022	FY2023	FY2022	FY2023
	Consolidated		Standalone	
Operating income	2,231.5	2,750.7	2,231.5	2,750.7
PAT	100.1	90.5	100.1	91.2
OPBDIT/OI	6.9%	5.5%	6.9%	5.5%
PAT/OI	4.5%	3.3%	4.5%	3.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.5	0.7
Total debt/OPBDIT (times)	0.8	1.7	0.8	1.7
Interest coverage (times)	17.2	10.4	17.2	10.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 20, 2024	Feb 24, 2023	Nov 26, 2021	Dec 31, 2020
1	Fund Based - Cash Credit	Long term	197.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Fund Based- Term Loan	Long term	111.45	111.45	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Non-Fund Based	Short term	39.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long term	68.55	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
5	Fund Based (Corporate Bill Discounting)	Short term	15.00	-	[ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund-Based – Cash Credit	Simple
Long Term – Fund Based - Term Loan	Simple
Short Term – Non-Fund Based	Very simple
Long Term – Unallocated	Not applicable
Short Term - Fund Based (Bill Discounting)	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term - Fund-Based – Cash Credit**	NA	NA	NA	197.00	[ICRA]A+(Stable)
NA	**Long Term – Fund Based - Term Loan**	April 2017	NA	FY2033	111.45	[ICRA]A+(Stable)
NA	**Short Term – Non-Fund Based**	NA	NA	NA	39.00	[ICRA]A1
NA	**Long Term – Unallocated**	NA	NA	NA	68.55	[ICRA]A+(Stable)
NA	**Short Term - Fund Based (Bill Discounting)**	NA	NA	NA	15.00	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jaideep Ispat and Alloys Private Limited	Holding Company	Full Consolidation
Jaideep Steelworks India Private Limited	Subsidiary (100%)	Full Consolidation
Moira Welfare Foundation	Subsidiary (100%)	Full Consolidation
Jaideep Metallics & Alloys Private Limited	Joint Venture (50%)	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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