February 28, 2022

J.R. Metal Chennai Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+; rated amounts enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	5.00	15.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Letter of Credit	29.00	55.00	[ICRA]A3+; upgraded from [ICRA]A3
Purchase Bills Discounting	10.00	15.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**44.00**	**85.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has factored in the consolidated financial profile of J.R. Metals Chennai Limited (JRM/the company) and its 100% overseas subsidiary, J.R. Metaux MG Sarlu. These entities are collectively referred to as the J.R. Group of Companies.

The ratings upgrade of JRM favourably factors in the better-than-expected growth in its earnings since FY2021, supported by favourable domestic demand growth prospects of TMT bars following a pick-up in the infrastructure development activities post the Covid-19 related disruptions. The company's operating margins spiked in FY2021 and 9M FY2022 on account of a rally in steel prices and savings in fixed costs due to greater asset sweating. With steel prices remaining at elevated levels at present, notwithstanding some input cost pressure, JRM's earnings are expected to remain at healthy levels in the next 12 months. Besides, the company is in the process of developing a 25-MW[1] captive solar power generation unit to structurally improve its cost position by lowering its dependence on the expensive grid power. ICRA continues to derive comfort from the extensive experience of the company's promoters in the steel industry and the company's established relationships with its customers, which helped it to gradually increase its turnover through brownfield expansions. In addition, the acquisition of an operating sponge iron manufacturing facility at Anantapur district, Andhra Pradesh, through slump sale, towards the end of FY2021, has further aided a rise in turnover from FY2022. The ratings also favourably factor in the company's healthy financial profile, characterised by the company's low reliance on external borrowings, resulting in comfortable debt protection metrics.

The ratings, however, are constrained by the intense competition in the fragmented and commoditised TMT bars segment, which limits its pricing flexibility and exposes the company to fluctuations in raw material prices and forex rates, especially in the absence of any hedging strategy. In addition, the company's modest scale of operations makes it vulnerable to a sustained period of industry downturn. JRM's business also remains vulnerable to the inherent cyclicality in the real estate and steel sectors, which is likely to keep its cash flows volatile. Further, ICRA notes the project execution, funding and stabilisation risks associated with the ongoing ~Rs. 120-crore capex for development of a captive solar power generation unit, to be incurred over the next six months.

The Stable outlook on the long-term rating indiates ICRA's expectation that JRM's profits and accruals are likely to remain at healthy levels in FY2023, which would aid the company to keep its credit metrics at comfortable levels.

[1] AC capacity is 25 MW and DC capacity is 32.5 MW

Key rating drivers and their description

Credit strengths

Better-than-expected growth in earnings since FY2021 leading to strengthening of credit metrics; earnings outlook remains favourable for FY2023 as well – JRM witnessed a considerable growth in earnings since FY2021, exceeding ICRA's previous expectations, largely on account of a V-shaped recovery in the steel sector from Q2 FY2021. Favourable domestic demand of steel products from the real estate sector supported higher steel prices in FY2021 and 9M FY2022, leading to an improvement in credit metrics.

Ongoing development of captive solar power generation unit expected to lead to sizeable savings in power cost post commissioning – The company recently opted to incur a capex of ~Rs. 120 crore to install PV solar panels for captive consumption to reduce reliance on external procurement of power for up to 50% of the current demand. ICRA notes that successful commissioning of the project within the budgeted cost and time would lead to annual savings of ~Rs. 26 crore, which would structurally improve the company's cost position.

Extensive track record of promoters – The J. R. Group is involved in the manufacturing of rebar and related products since 1990 through Narayan Industries. The extensive experience and the established relationship of the promoters with their major customers have supported JRM to garner repeat orders.

Healthy growth in capacity; partial backward integration into manufacturing of billets and sponge iron – The company increased its manufacturing capacity for billets by 40,000 MT and 20,000 MT in FY2019 and FY2020, respectively whereas TMT manufacturing capacity was increased by 30,000 MT in FY2019. It acquired an operating sponge iron manufacturing facility at Anantapur district, Andhra Pradesh, on a slump sale basis, with an annual capacity of 66,000 MT, which partly supports the requirement of the steel plant at Tiruvallur district, Tamil Nadu. The company reported a significant increase in the revenue level since FY2021, supported by a strong growth in sales volume and higher realisations. The increased captive production of billets reduces its reliance on external procurement of billets, which offers some savings in raw material costs for the company. Additionally, JRM has installed hot charging facility in its rolling mill division, which has reduced power and fuel consumption for reheating.

Financial profile characterised by comfortable coverage metrics – The company has external borrowings comprising auto loans of Rs. 2.42 crore and cash credit payables of Rs. 2.03 crore outstanding as on March 31, 2021. The utilisation of fund-based limits remained very low during the 12-month period ended in December 2021, with outstanding credit balance in some months. Low debt levels and steadily rising net worth, aided by healthy accruals over the years, resulted in a comfortable capital structure with a consolidated gearing and TOL/TNW of 0.1 times and 0.9 times, respectively as on March 31, 2021. Low external debt levels led to a comfortable consolidated interest coverage of 31.3 times in FY2021. Despite the likelihood of taking external borrowings of ~Rs. 60 crore for partly funding the solar project capex, the credit metrics of the company are expected to remain at comfortable levels, going forward.

Credit challenges

Intense competition in fragmented TMT market; modest scale of operations makes the company vulnerable to a prolonged industry downturn – JRM, operating in a highly fragmented industry, is exposed to intense competition from a number of established and small TMT manufacturers. This restricts its pricing flexibility to an extent, making the company's operating margins vulnerable to fluctuation in raw material prices. Moreover, the company's modest scale of operations makes it vulnerable to a prolonged period of industry downturn.

Project execution, funding risks and stabilisation risks associated with the ongoing capex plans – The company has planned to develop a captive solar power generation unit at an estimated cost of ~Rs. 120 crore, to be incurred in FY2022 and FY2023.

The funding for the same will be through external borrowings of ~Rs. 60 crore and the rest through internal accruals. At present, the company has procured land on which the solar panels would be installed, and various regulatory approvals required for the project are expected to be received in the coming few months. Successful commissioning and stabilisation of the project within the budgeted cost and time would result in savings of ~Rs. 26 crore annually. However, during the construction phase, the company would remain exposed to execution and funding risks.

Susceptibility of margins to foreign exchange rate fluctuation risks – JRM's operations are raw material intensive with raw materials and consumables consumption accounting for over 75% of its operating income (OI) during the last four fiscals. It imports a predominant share of the total scrap from international suppliers, which exposes the company to fluctuations in exchange rates.

Liquidity position: Adequate

Supported by the healthy growth in earnings, the company is expected to report positive retained cash flows in FY2023. However, the company's free cash flows are expected to remain in the red in FY2023 as the bulk of the capex for the solar power generation plant would be incurred in the next fiscal. The company has received in-principle sanction from the lenders to bridge this funding gap. In addition, the company has a comfortable headroom in fund-based working capital limits, which along with the standalone unencumbered cash and deposits of ~Rs. 7.27 crore as of end-December 2021, supports the company's overall liquidity.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company continues to report healthy earnings level for a sustained period, leading to a further improvement in the liquidity profile and the credit metrics.

Negative factors – Pressure on the ratings could arise if the company is not able to commission the ongoing captive solar generation project within the budgeted cost and time. Pressure on the ratings could also arise if the liquidity position/ credit metrics weakens due to a significant decline in cash accruals or stretched receivables. Further, any sizeable incremental support to Group entities or large debt-funded capex could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated financial statements of the issuer.

About the Company

The J.R. Group, founded by Mr. Ramchander Singh, the Group Chairman, manufactures rebar and related products since 1990 through Narayan Industries. The Group, at present, has footprints in various areas such as manufacturing and trading of steel and steel products, warehousing and logistics and wind power generation.

JRM, established in 2008**,** is the flagship company of the J.R. Group of companies. JRM manufactures thermo-mechanically treated (TMT) bars and operates the manufacturing facility in Tiruvallur district, Tamil Nadu with a production capacity of 1,20,000 metric tonnes per annum (MTPA). JRM has backward integrated into manufacturing mild steel (MS) billets with a capacity of 1,20,000 MTPA. It markets the TMT bars under the brand name, JRTMT, which is certified under ISI. Towards the end of FY2021, the company acquired an operating sponge iron manufacturing facility at Anantapur district, Andhra Pradesh, on a slump sale basis, with a capacity of 66,000 MTPA, which partly supports the requirement of the steel plant at Tiruvallur.

JRM has a wholly-owned overseas subsidiary, J.R. Metaux, which was incorporated in 2014 in Madagascar. The subsidiary is involved in TMT manufacturing and primarily caters to the African markets.

Key financial indicators

JRM	FY2020 (Audited)	FY2021 (Provisional)	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
	Consolidated		Standalone		
Operating Income (Rs. crore)	504.9	530.2	454.4	490.3	561.8
PAT (Rs. crore)	12.4	30.6	11.0	29.5	27.7**
OPBDIT/OI (%)	4.3%	9.2%	4.0%	8.8%	7.3%
RoCE (%)	33.5%	34.2%	17.5%	35.8%	-
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9	1.1	0.9	-
Total Debt/OPBDIT (times)	0.6	0.3	0.7	0.3	-
Interest Coverage (times)	12.5	31.3	12.3	27.9	29.0
DSCR (times)	12	16.2	8.5	15.1	-

**Source: Company data; **the company has not taken provision for depreciation in 9M FY2022*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					28-Feb-2022	30-Nov-2020	19-Aug-2019	05-Apr-2018
1	Cash Credit	Long Term	15.00	7.13	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+(Stable)
2	Letter of Credit	Short Term	55.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A4+;
3	Purchase Bills Discounting	Short Term	15.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Purchase Bills 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate*	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	May 2021	NA	-	15.00	[ICRA]BBB(Stable)
NA	Letter of Credit	May 2021	NA	-	55.00	[ICRA]A3+
NA	Purchase Bills Discounting	NA	NA	-	15.00	[ICRA]A3+

Source: *Company data; NA*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
J.R. Metaux MG Sarlu	100%	Full Consolidation

Source: *Company data*

ANALYST CONTACTS

Jayanta Roy
+91 33 71501100
jayanta@icraindia.com

Priyesh Ruparelia
022 6169 3328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33 71501107
Ritabrata.ghosh@icraindia.com

Brinda Goradia
+91 96197 00809
brinda.goradia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches