RATING RATIONALE

30 Oct 2020

JTL Infra Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.47.50 Crs of JTL Infra Ltd

Particulars:

Facility	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (10 Sept 2019)	Present
Fund Based	15.00	15.00	Long Term	BWR BBB+ Stable	BWR BBB+ Stable (Reaffirmed)
Fund Based	15.00	15.00	Short Term	BWR A3+	BWR A3+ Reaffirmed
Non Fund Based	17.50	17.50			
Total	47.50	47.50	Rupees Forty Seven crores and Fifty Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Reaffirmation in the ratings of bank loan facilities of JTL Infra Ltd (JTL or the company), factors in experience of the promoters and directors, growth in revenues during H1FY21, adequate liquidity and comfortable financial risk profile despite moderate scale of operations. Foreign exchange risks, low market position and high competition, uncertain industry outlook and high dependency on government departments and entities for its revenues are the other factors that constrain the rating.

Although, operating revenues of the company declined from Rs.320 crs in FY19 to Rs.230 crs in FY20 primarily due to disruption of economic activities in J&K, which was the one of the major contributors of business to the company, the revenues are again back to growth trajectory as evident by Q1FY21 and Q2FY21 performance. Despite challenging circumstances, the company generated sales of Rs.52 crs in Q1FY21 and Rs.80 crs in Q2FY21 totalling H1FY21 sales of Rs.132 crs against H1FY20 revenues of Rs.88 crs. The company has orders worth Rs.50 crs pending for execution till Nov 2020. Based on trends in revenue growth and orders at hand, the company is expected to report healthy growth in topline during FY21 against its performance in FY20. Interest coverage is expected to improve during FY21 and FY22 and DSCR of the company is expected to remain comfortable due to very low term debt obligations. The company does not propose any fresh long term debt during the next 12 months.

COVID-19 Impact: The company's operations were impacted in Q1FY21, due to suspension of production, supply chain constraints, shortage of workforce and social distancing measures adopted in business operations to ensure safety across all areas of operations. Despite these challenges, the company managed cash flows efficiently without the RBI announced 6M loan moratorium and COVID 19 related emergency line of funding.

Outlook: Stable

BWR believes the JTL Infra Ltd.'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

KEY RATING DRIVERS

Credit Strengths

Experienced Management: Promoters and Directors of the company are educated and well experienced in the line of business. Board of Directors comprise eminent persons from the field of finance, economics, banking and industrial engineering. They are ably supported by key managerial people looking after finance, human resource, planning, operations and marketing.

Comfortable Debt coverage profile: Interest coverage has declined from 9.40x and 8.06x in FY18 and FY19 respectively to 4.29x in FY20 due to decline in operating profits. However, overall debt coverage risk is low due to very low level of long term debt obligations. Almost all of the debt comprises short term working capital borrowings that are secured by liquid assets such as inventory, receivables and book debts.

Business diversification: Overall business risk of the company is low with diversified manufacturing locations, products manufactured, markets and industries served and suppliers and buyers of goods. The company has low customer concentration risks and export finance is covered under various policies of ECGC. Forex is hedged through forward cover and goods are exported generally on advance payment and/or LC basis.

Credit Risks:

Profit Margins: Operating profits and net profits declined in line with the decline in revenues. Operating profit margin has marginally declined to 7.01% in FY20 from 8.54% in FY18 and 7.27% in FY19 due to sequential increase in raw material costs. Net profit margin also declined to 4.38% in FY20 from 4.74% in FY18 and 4.51% in FY19 due to decline in operating margins and increase in depreciation and borrowing expenses, that were partially offset by higher non operating income and lower tax outgo.

Networth and Gearing: Financial leverage of the company as indicated by Total Debt/EBITDA has deteriorated from 1.48x and 1.50x in FY18 and FY19 respectively to 3.61x in FY20 due to increase in working capital borrowings coupled with decline in operating profits. However, capital structure of the company is comfortable with gearing at 0.95x (Total Debt/TNW ratio) against 0.91x and 0.80x in FY18 and FY19 respectively.

Market position of entity: The pipes manufacturing industry is characterised with presence of several small and medium players leading to constrained pricing flexibility and bargaining powers with suppliers and buyers. Its limited pricing flexibility coupled with low bargaining power with the target market makes it susceptible to subdued profitability due to rise in input costs.

Client base: Majority of the business of the company is derived from supply of goods to various state government departments and entities exposing the company to risks associated with tender based businesses and delays in realisation of receivables.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The ratings are sensitive to improvement in scale of operations, operating margins, debt protection metrics and net worth position besides general risk profile. Deterioration in revenues, profit margins, liquidity parameters and net worth position would be critically examined for a downgrade in the ratings.

LIQUIDITY POSITION : ADEQUATE

Liquidity in the company is adequate with low institutional term debt obligations, comfortable NWC of Rs.39 crs as on 31st March 2020 and moderate average utilisation of 76% of the sanctioned funded working capital CC limit for six months ending Sept 2020. However, low cash balances and higher inventory and receivables holding during FY20 has elongated the overall working capital cycle for the company. Going forward, efficient management of inventory and receivables levels to keep working capital cycle under manageable levels would be the key liquidity factors to be monitored closely.

COMPANY PROFILE

JTL Infra Ltd (JIL), incorporated on 29 July 1991, with its current registered office at SCF 18-19, Sector 28 C, Chandigarh, is engaged in the manufacturing and export of construction and industrial galvanized steel tubes and pipes through its two plants located in Derabassi (Punjab) and Raigad (Maharashtra). The company was initially incorporated as Jagan Tube Limited and later on changed its name to JTL Infra Limited on 4th April 2008. Madan Mohan Singla, Managing Director in the company, is the chief promoter. Mithan Lal Singla, Rakesh Garg, Bhupinder Nayyar, Sukhdev Raj Sharma and Preet Kamal Kaur Bhatia are the other directors in the company. The company is a registered star export house.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2019(Aud)	2020 (Aud.)
Operating Revenue	Rs. crs	321.86	229.93
EBITDA	Rs. crs	23.41	16.13
PAT	Rs. crs	14.50	10.08
Tangible Net worth	Rs. crs	44.12	61.23
TOL/TNW	Times	1.45	1.29
Current Ratio	Times	1.45	1.51

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : N.A

RATING HISTORY for the past three years (Including withdrawn and suspended)

Instrument /Facility	Current Year (2020)			Rating History						
	Current Rating			10 Sept 2019			13 Dec 2018			2017
Bank Loan Facility	FB	Rs.15 crs	BWR BBB+ Stable				FB	Rs.10 crs	BWR BBB Stable)	N.A
	FB	Rs.15crs	BWR A3+	FB	Rs.15 crs	BWR BBB+ Stable	FB	Rs.15 crs	BWR A3	
	NFB	Rs.17.50 crs		FB	Rs.15 crs	BWR A3+	NF B	Rs.12.50 crs		
				NFB	Rs.17.50 crs					

ANNEXURE I

JTL Infra Ltd

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)	Short Term {(₹ Cr)	Total (₹ Cr)
1	Punjab National Bank (erstwhile Oriental Bank of Commerce), Sector 17B, Chandigarh	Cash Credit	15.00	NIL	15.00
2		PC/PCFC (Running)	NIL	15.00	15.00
3		FBDP/FUDB P/FCBRD	NIL	(15.00)	(15.00)
4		LC	NIL	15.00	15.00
5		IBG	NIL	2.50	2.50
TOTAL			15.00	32.70	47.50

Total Rupees Forty Seven crores and Fifty Lakhs only.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short Term Debt
- Manufacturing Companies

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