Press Release

JCO Gas Pipe Limited

July 02, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Proposed Long Term Bank Facilities	10.00	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)	Rating Reaffirmed as IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)
Proposed Short Term Bank Facilities	40.00	IVR A3 (IVR Single A Three)	Rating Reaffirmed as IVR A3 (IVR Single A Three)
Total	**50.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the rating assigned to the proposed bank facilities of JCO Gas Pipe Limited (JCO) takes into account improvement in operating and profitability margins in provisional FY20 with improvement in overall gearing ratio. Further, the ratings continues to derive comfort from extensive experience of its promoters in the steel pipes/tube industry, healthy order book, strong financial risk profile and self-funded capacity expansion capabilities. These rating strengths continues to remain partially offset by intense competition and vulnerability of operating profitability to volatility in raw material prices.

Key Rating Sensitivities:

Upward Factor:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance in the capital structure and debt protection metrics
- Successful completion of an on-going capex

Downward factor:

- Dip in operating income and/or profitability impacting the debt coverage indicators,
- Deterioration in the capital structure with overall gearing to above 1.5x and interest coverage to below 2.5x
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and top management**

JCO is controlled by Chokhani Group which has been into diverse business activities since 1960's. Further, the group have established their position in the manufacture of steel pipes/ tubes.

The Company is led by a team of well qualified and experienced professionals which has helped the company build established relationship with customers and suppliers. The Company is likely to benefit from the extensive experience of its promoters and management over the medium term.

- **Healthy Order Book**

JCO sells through distributors and dealers located PAN India and also against orders received. Almost 100 per cent of the sales of the Company are on order basis as per the management and raw material is majorly booked on the basis of order. The Company is having orders in hand of Rs.232.44 crore till October FY20 which provides healthy revenue visibility over the near term.

- **Strong financial risk profile**

The capital structure of the company remained comfortable and improved as reflected in TOL/TNW ratio of 1.45x in FY20 (from 2.07x in FY19) driven by continued and moderate reliance on outside borrowings in FY20. The overall gearing ratio witnessed gradual improvement as on the past three account closing dates driven by steady accretion of profit to net worth and stood satisfactory at 0.47x as on March 31, 2020 (0.59x as on March 31, 2019).

Moreover, the debt protection metrics also remained satisfactory, with interest coverage ratio at 5.88x in FY20 but witnessed slight moderation due to increase in interest expenses in FY20.

- **Undertook capacity expansion through internal cash accruals**

JCO is currently undertaking capacity expansion from 50,000 TPA to 130,000 TPA of H-SAW Pipes. The total cost of the project is around Rs.29.0 crore and is being funded through mix of internal cash accruals of INR 24.33 Cr already incurred in FY19 & FY20 and proposed term loan of INR 5.00 Cr to be incurred in FY21. The 90% of the new unit expansion has been completed as on March 2020 as per the management, respectively.

Key Rating Weaknesses

- **Intense competition**

The Indian secondary steel industry comprises many small to medium steel manufacturers along with large and established players and is characterized by high degree of fragmentation. Presence of many players with lower product differentiation limits pricing power of the company

- **Vulnerability of operating profitability to volatility in raw material prices**

The steel industry is highly cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. The operating margins of JCO are susceptible to volatility in the prices of HR coil. The increase in raw material expenses in the past resulted in sharp decline in the EBIDTA margin of the company from 12.33% in FY16 to 5.93% in FY18. The operating profitability of the company is likely to remain vulnerable to volatility in raw material prices going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

Adequate liquidity marked by expected cash accruals in the range of ~Rs.18.49-38.48 crore as against repayment obligation of around ~Rs.0.23-1.01 crore during FY21-23. Liquidity is further supported by unencumbered cash and bank balance of Rs.16.40 crore in FY20 and no major planned debt funded capex. The company has not availed any working capital limits.

About the Company

JCO Gas Pipe Ltd (JCO) is the company controlled by Chokhani Group which has been into diverse business activities since 1960's.

The Company was incorporated in May 2006 and setup a plant for manufacture of H-SAW pipes with an installed capacity of 50000 MT annually at Boregaon industrial area, Chhindwara, Madhya Pradesh. JCO manufactures a range of pipes from 406 MM to 1626 MM with thickness of 5 mm and lengths from 6 MTR to 14 MTR, confirming to IS: 5504 & API 5L.The pipes find application in water supply & sewerage, oil & gas, other industrial applications. The plant has been in operation since 2008.

JCO has been undertaking capacity expansion from 50,000 TPA to 130,000 TPA of H-SAW Pipes since FY19. With the expansion, the Company will be able to manufacture Pipes of diameter upto3404 mm.

Financials: Standalone

(Rs. crore)

For the year ended*/As on	**31-03-2019**	**31-03-2020**
	Audited	**Provisional**
Total Operating Income	197.13	179.55
EBITDA	13.67	15.71
PAT	7.92	7.61
Tangible Net worth	29.18	36.75
EBITDA Margin (%)	6.93	8.75
PAT Margin (%)	3.99	4.20
Overall Gearing Ratio (x)	0.59	0.47

**As per Infomerics Standards*

Status of non-cooperation with previous CRA: The rating was migrated to Issuer non-cooperating category by CRISIL vide its press release dated May 03, 2019 due to lack of cooperation from the client.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan - Proposed	Long Term	5.00	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)	-	IVR BBB-/Stable (March 26, 2019)	-
2.	Cash Credit – Proposed	Long Term	5.00	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)	-	IVR BBB-/Stable (March 26, 2019)	-
3.	LC/BG - Proposed	Short Term	40.00	IVR A3 (IVR Single A Three)	-	IVR A3 (March 26, 2019)	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Proposed Term Loan	-	-	-	5.00	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)
Long Term Bank Facilities – Proposed Cash Credit	-	-	On demand	5.00	IVR BBB-/Stable outlook (IVR Triple B Minus with Stable outlook)
Short Term Bank Facilities – Proposed LC/BG	-	-	-	40.00	IVR A3 (IVR Single A Three)