

Infomerics Valuation And Rating Pvt. Ltd.

JCO Gas Pipe Limited

March 26, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1	Bank Facilities- Long Term	45.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Bank Facilities- Short Term	60.00	IVR A3 (IVR A Three)

Details of Facilities are in Annexure 1

Detailed Rationale

The rating draws comfort from the extensive experience of its promoters, healthy order book and a strong financial risk profile. These strengths are partially offset by vulnerability in operating profitability to volatility in raw material prices and large debt funded capex being undertaken by the company. Timely completion of the expansion project, profitability and capital structure are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and top management

JCO is promoted by the Chokhani Group and D.P. Jindal group which have been into diverse business activities since 1960's and 1950's respectively. Further, the group's have established their position in the manufacture of steel pipes/ tubes. Currently the operational management of the Company is under Chokhani Group.

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 as reflected in a CAGR of ~26.55% in its total operating income over the three years through

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FY18. JCO clocked revenue of Rs.96.24crore in the first half of the current year. 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. Around 60 per cent of the sales of the Company are on order basis. The Company had a healthy order book of Rs.137.55crore as on Feb 5, 2019 (0.84x of revenue in FY18) which provides healthy revenue visibility over the near term.

Strong financial risk profile

JCO has a strong financial risk profile marked by overall gearing of 0.93x as on March 31, 2018, due to low level of debt in its books. The debt protection parameters also remained strong with interest coverage ratio of 4.07x and Total Debt/ GCA of 3.22x in FY18. Though the financial risk profile is likely to suffer deterioration over the medium term on account of the large debt funded capex being undertaken by the Company, it is expected to remain comfortable in the ensuing years.

Key Rating Weaknesses

Vulnerability of operating profitability to volatility in raw material prices

The operating margins of JCO are susceptible to volatility in the prices of HR coil. The increase in raw material expenses over the last three years resulted in sharp decline in the EBIDTA margin of the company to 5.93% in FY18 from 12.33% in FY16. The operating profitability of the company is likely to remain vulnerable to volatility in raw material prices going forward.

Large Debt Funded Capex

JCO is currently undertaking capacity expansion from 50,000 TPA to 1,30,000 TPA of H-SAW Pipes. The total cost of the project is around Rs.47.6crore and is being funded through internal accruals and term loan with a DER of 2.02:1.

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Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

JCO is expected to generate sufficient accruals over the medium term as against nil repayment obligations (3 years through FY21). Liquidity is further supported by investment in mutual funds to the tune of Rs.7.9crore as on March 31, 2018 and unencumbered cash and bank balance of Rs.2.62crore.

About the Company

JCO Gas Pipe Ltd (JCO) 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 plant has been in operation since 2008.

Financials (Standalone):

	(Rs. crore)	
For the year ended*	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	106.30	163.40
EBITDA	9.07	9.70
PAT	2.77	3.97
Total Debt	24.00	19.50
Tangible Net worth	17.20	20.95
EBITDA Margin (%)	8.54	5.93

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For the year ended*	31-03-2017	31-03-2018
PAT Margin (%)	2.60	2.42
Overall Gearing Ratio (x)	1.40	0.93

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL has moved the rating into Issuer Not Cooperating category (February 26, 2018) as the company did not submit the requisite information to them.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Cash Credit	Long Term	15.00	IVR BBB-/Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	30.00	IVR BBB-/Stable	-	-	-

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3.	Short Term Non Fund Based Limits – Letter of Credit/ Bank Guarantee	Short Term	60.00	IVR A3	-	-	-

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.

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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 Cash Credit	-	-	-	15.00	IVR BBB-/Stable
Long Term Bank Facilities- Proposed Term Loan	-	-	-	30.00	IVR BBB-/Stable
Short Term Bank Facilities – Proposed Letter of Credit/ Bank Guarantee	-	-	-	60.00	IVR A3