John Cockerill India Limited

February 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	291.00	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)	Revised from CARE A-; Negative / CARE A2+ (Single A Minus ; Outlook: Negative / A Two Plus)
Total Facilities	291.00 (Rs. Two Hundred Ninety-One Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of John Cockerill India Limited (JCIL) considers the muted order inflow and execution on account of the disruptions caused by the pandemic. The total operating income declined from Rs. 512 crore in FY19 to Rs. 202 crore in FY21 on account of the prolonged impact of the pandemic resulting in subdued demand from the end-user steel industry. The profitability was also impacted due to inability to absorb the fixed cost with the company posting cash losses during FY21. During H1FY22 though the company has recorded revenue of Rs.191crore, the profitability is yet to recover to previous level. Liquidity remains adequate marked by adequate cash balances, absence of external borrowings, and nil utilization of fund based working capital limits.

The ratings continue to draw comfort from JCILs' established track record of operations in industrial construction activity and its global presence and geographical diversification of operations owing to strong parentage and operational linkages with the John Cockerill group (JC group).

The above rating strengths are offset by customer concentration risk, stretched collection period on account of the retention money, inherent cyclicality and prospects correlated with the capex cycle of steel industry.

Rating Sensitivities

Positive:

- Increase in total operating income above Rs.500crore
- Improvement in the operating profitability (PBILDT) margins to 10% and above on sustained basis

Negative:

- Decline in order book leading to reduced revenue visibility
- Decline in operating profitability (PBILDT) below 5% on sustained basis
- Significant deterioration of the operating cycle
- Deterioration in the credit profile of the JC group on consolidated basis

Detailed description of the key rating drivers:

Key Rating Strengths

Strong parentage and established track record of JCIL in industrial construction activity

JCIL is majorly held by JC group (75% shareholding by John Cockerill group as on December 31, 2021). Headquartered in Belgium, JC group is an international supplier specialising in the production of machinery for steel plants (cold rolling mills, picking lines, processing lines, automation, and process controls etc.) industrial heat recovery equipment, boilers, defence equipment etc. The operations of the group are classified under the five heads namely: Energy, Defence, Industry, Environment and Services. JCIL operations falls under the ambit of Industry. JCIL has over three decades of experience in the designing, manufacturing, erection and commissioning of cold rolling mill complexes, processing lines, chemical equipment, industrial furnaces and auxiliary equipment meeting global demand for ferrous and non-ferrous industries. Over the years, the company has catered to domestic and international clientele with revenue spread across geographies.

Global presence and geographical diversification of operations

JCIL has access to established global footprint which has provided accessibility to geographically diversified array of clientele. Majority of the exports are to Bangladesh, Spain, Belgium, Kenya, Myanmar and Egypt. JCIL derived around 31% of the total revenue from export markets in FY21. The share of exports in total revenue base has been declining since FY19 and stood at 23% in H1FY22. During FY21, JCIL reported Rs.202crore of total operating income against Rs.384crore in FY20. The same is on account of lower incremental export orders after completion of earlier orders. Deterioration in revenue was on account of lockdown restrictions imposed in March 2020 till May 2020 which resulted into shutting down of manufacturing facilities. Additionally, slower pace of execution of earlier orders and overall slow-down in the pace of CAPEX project execution has impacted their revenues, both in domestic and export markets.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Key Rating Weaknesses

Decline in order book position

JCIL's order book has been declining on account of the prolonged impact of pandemic resulting in subdued demand from the end-user steel industry. The export orders have been impacted the most. As on December 31, 2021 major portion (~over 75%) of the order book consist of orders from the domestic customers.

Stretched debtors cycle

There is an elongation in debtors period over the past few years. The collection period has elongated from around 78 days in FY19 to 233 days in FY21. Significant portion of the receivables is attributed to the retention money from customers, which has led to the elevated receivable period.

Customer concentration risk

The company is mainly engaged in the design, manufacturing, erection and commissioning of facilities for steel players. Thus, the order book and hence, the performance of the company is primarily dependent on the prospects of the highly cyclical steel industry. Although, the profile of the top customers has slightly changed over the years, yet majority of the sales were accounted by the top 5 customers with 85% of revenue contribution in FY21.

The company has a policy of taking advances from the customers at the time of receipt of order which ranges from 15% to 60% of the order depending upon the project and the customer. The contractual arrangements with its customers are such that generally, 20% of contract value is received as mobilisation advance, 10% is received on milestone payment, 60% when the order is dispatched and the remaining 10% is held back towards retention and is received on successful commissioning.

Inherent cyclicality of the steel industry

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand, thereby impacting volumes, revenue and margins of steel makers. The company is mainly engaged in the design, manufacturing, erection and commissioning of facilities for steel players. Thus, the order book and hence, the performance of the company is primarily dependent on the prospects of the highly cyclical steel industry.

Liquidity: Adequate

The liquidity profile remains adequate marked by cash and bank balance of Rs.40crore and nil external long-term debt as on September 30, 2021. The working capital utilization for the fund-based limits remains negligible for the 12 months ending December 2021. The unutilized fund based working capital limits are sufficient to cover the working capital needs of the company over the medium term. The company has no capex planned for the medium term and the current ratio of 2.14x and quick ratio of 2.05x further augments the liquidity profile of JCIL.

Analytical approach: Standalone

Applicable Criteria

Criteria on rating outlook and credit watch
CARE's Policy on Definition of default
Financial ratios – Non-Financial Sector
Rating Methodology – Notching by factoring Linkages in Ratings
Liquidity analysis of Non-financial sector entities
Rating Methodology-Manufacturing Companies
Short term instruments

About the Company

Incorporated in 1986, John Cockerill India Limited (JCIL, formerly known as CMI FPE Limited) was promoted by Mr. T R Mehta as Flat Products Equipment India Limited (FPE). In June 2008, FPE was acquired by Cockerill Maintenance and Ingenerie SA group (CMI, now rebranded as JC group). Since then, the company has been a part of JC group vertical. JCIL designs, manufactures, and installs cold-rolling mills, galvanising lines, colour-coating lines, tension-levelling lines, skin-pass mills, acid-regeneration plants, wet-flux lines, and pickling lines for ferrous and non-ferrous industries world-wide. It has two manufacturing facilities - at Taloja and Hedavali, both in Maharashtra and has global footprints across Asia, Africa, Middle East, Europe, North America, and South America.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22(UA)
Total operating income	384.45	202.42	190.78
PBILDT	35.38	(23.24)	4.74
PAT	23.75	(29.06)	1.15
Overall gearing (times)	0.47	0.57	0.30
Interest coverage (times)	11.46	(11.04)	3.36

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	47.50	CARE BBB+; Stable / CARE A2
Fund-based/Non-fund-based-LT/ST		-	-	-	243.50	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	47.50	CARE BBB+; Stable / CARE A2	1)CARE A-; Negative / CARE A2+ (05-Apr-21)	-	1)CARE A-; Stable / CARE A1 (31-Mar-20)	1)CARE A-; Stable / CARE A1 (04-Mar-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	243.50	CARE BBB+; Stable / CARE A2	1)CARE A-; Negative / CARE A2+ (05-Apr-21)	-	1)CARE A-; Stable / CARE A1 (31-Mar-20)	1)CARE A-; Stable / CARE A1 (04-Mar-19)

**Long term/ short term*

Annexure-3: Detailed explanation of covenants of the rated facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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