John Cockerill India Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term / Short term bank facilities	291.00	**CARE A-; Negative/ CARE A2+ (Single A Minus; Outlook: Negative/ A Two Plus)**	**Revised from CARE A-Stable/CARE A1 (Single A Minus; Outlook: Stable/ A One)**
Total Facilities	**291.00 (Rs. Two hundred and ninety-one crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating assigned to the bank facilities of John Cockerill India Limited (JCIL) considers the slower pace of order-book execution and less incremental new orders received during FY20 and 9MFY21 (refers to the period April 01, 2020 to December 31, 2020) which has resulted into lower generation of cash during this period. Furthermore, the liquidity position of the company has also weakened owing to depletion of cash to fund its losses, during 9MFY21, thereby negating the comfort drawn from the surplus cash available with the company in the past.

The ratings continue to draw strength from the existing order-book position which provides revenue visibility in the medium term. The ratings also consider the comfortable financial risk profile characterized by absence of external borrowings and nil utilization of working capital limits. Further, 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 the inherent cyclicality and prospects correlated with the capex cycle of steel industry and customer concentration risk.

Outlook: **Negative**

The Negative outlook reflects CARE's expectation of moderation in the financial risk profile of the company in near term which may further stress the liquidity cushion available with the company. CARE notes that the company has reported improved financial performance in Q3FY21 with some traction in order book execution. Any significant slowdown or staggered execution pace resulting in negative spillover effect beyond the timelines envisaged by CARE would trigger a rating action. The outlook may be revised to stable in event of sustenance of increased pace of order-book execution which would improve the revenue and liquidity profile of the company.

Rating Sensitivities

Positive Factors

- Sustained ramping up of scale of operations above Rs.450 crore
- Improvement in the profitability margins (PBILDT/Total operating income) to 10% and above on sustained basis

Negative Factors

- Any significant increase in working capital utilization/debt funded capex expenditure resulting into deterioration of its capital structure
- Significant decline in order book position on account of decline in garnering new orders
- Any significant deterioration of the operating cycle from the existing levels

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 JC group as on December 31, 2020). Headquartered in Belgium, JC group is an international supplier specialising in the production of machinery for steel plants *(cold rolling mills, picking lines, strip*

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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, and Belgium. JCIL derived around 58% of the total revenue from export markets in FY20. The same stood at 33% during 9MFY21. During FY20, the PBILDT margins remained stable at 9.20% when compared to FY19. The improvement in margins since FY18 is on account of change in product mix and cost savings on account of **"One metal**" strategy wherein multiple business units of JC group across geographies collaborate to offer most optimized solution to prospective customers. This strategy translates, into improved execution capabilities, cost optimization and improved competitiveness.

Robust order book position thus providing revenue visibility
JCIL has strong order book position as on December 31, 2020 of which major portion (~over 75%) caters to the domestic customers. The confirmed order book translates to 1.56x of the sales of JCIL in FY20 and provides medium term revenue visibility with execution timelines of up-to two years. The domestic counterparty has a very strong credit profile which provides comfort in terms of revenue visibility.

Comfortable financial risk profile
The financial risk profile remained comfortable reflected by overall gearing, Total Debt to Gross Cash Accruals (TDGCA) and PBILDT interest coverage which stood at 0.47x, 3.40 and 11.46x respectively during FY20 as compared to 0.49x, 2.12 and 491x respectively during FY19. JCIL has nil term borrowings and liability is mainly in the form of customer advances which are backed by the bank guarantee. JCIL's operations are funded either through the customer advances or internal accruals. The customer advances are charged based on the nature and tenure of work. Further, customer advances have direct co-relation to the order book, thus increase in order book leads to increase in the customer advances.
CARE has considered the customer advances secured against bank guarantee given by JCIL as part of debt. As on December 31, 2020, the company has unencumbered cash balance of Rs. 38.60 crore of which Rs. 14 crore is earmarked as margin money and securities.

Key Rating Weaknesses
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% and 63% revenue contribution in FY20 and 9MFY21 respectively.
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 of the machine.

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.
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Impact of COVID-19 on business operations
The lockdown induced by COVID-19 led to the shutting down on manufacturing facilities of JCIL. Since company was shut for the significant amount of time during Q1FY21, this led to loss of sales and company had to bear the fixed costs of around Rs.5-

6 crore per month. This led to decline in PBILDT margins. After staggered re-opening of economy, weak sentiments, sluggishness in steel industry along with slow pace of order book execution led to the reduction in total income of the company in 9MFY21. Out of 12 major customers for whom JCIL were executing projects, 2 domestic customers announced delays / temporary suspension of their projects ranging between 3-6 months in Q1FY21. However, the company performance improved post September 2020 with JCIL reporting net profit of around Rs.1.35 crore in Q3FY21.

Liquidity: Adequate
The liquidity profile remains adequate marked by cash balance of Rs. 38.60 crore (out of Rs.38.60 crore, Rs.14 crore is earmarked as margin money against bank guarantees) and nil external long-term debt as on December 31, 2020. The working capital utilization for the fund-based limits remains nil for the past twelve months ending January 2020. 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. The company did not avail any moratorium on its repayment obligations

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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total operating income	511.83	384.45
PBILDT	47.18	35.38
PAT	35.10	23.75
Overall gearing (times)*	0.49	0.47
Interest coverage (times)	491.50	11.46

A: Audited
**calculations as per CARE standards*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 A-; Negative / CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	243.50	CARE A-; Negative / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	47.50	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A1 (31-Mar-20)	1)CARE A-; Stable / CARE A1 (04-Mar-19)	1)CARE BBB+; Stable / CARE A2+ (02-Feb-18)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	243.50	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A1 (31-Mar-20)	1)CARE A-; Stable / CARE A1 (04-Mar-19)	1)CARE BBB+; Stable / CARE A2+ (02-Feb-18)

Annexure 3: Detailed explanation of covenants of the rated instrument: not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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