

## Jay FE Cylinders Limited

March 15, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	47.25	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	62.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Revised from CARE A4+ (A Four Plus) and moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>109.25</b> <b>(Rs. One Hundred Nine</b> <b>Creore and Twenty-Five</b> <b>Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Jay Fe Cylinders Limited (JFCL) to monitor the rating(s) vide e-mail communications/letters dated January 22, 2022, March 05, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The ratings on Jay Fe Cylinders Ltd.'s bank facilities will now be denoted as **CARE BB; Stable/CARE A4; ISSUER NOT COOPERATING\***.

The ratings have been revised on account of non-submission of information with respect to the financial and operational performance along with liquidity position of the company. The ratings continue to be constrained by low cash accruals, proposed debt funded capex leading to moderation in debt coverage indicators, customer concentration risk, regulated nature of industry, and exposure to volatility in commodity prices and foreign exchange rates. These rating constraints are, however partially offset by experienced promoters with long track record of operations in the auto industry, reputed clientele, moderate scale of operations, and operating linkages with its group companies.

### Detailed description of the key rating drivers

At the time of last rating on March 02, 2021, the following were the rating weaknesses and strengths:

#### Key Rating Weaknesses

**Low cash accruals:** The PBILDT margin of the company remained low at 6.04% in FY20 (PY: 5.40%) primarily on account of high raw material costs which constitute approximately 70%-80% of JFCEL'S total operating income. However, the PAT margin of the company improved from 0.68% in FY19 to 2.67% in FY20 primarily on account increase in deferred tax asset and mat credit entitlement to the tune of ~Rs.6.00 crore during FY20. Nevertheless, the company's cash accruals remained low at Rs.10.25 crore in FY20 (PY: Rs.9.58 crore).

**Volatility in raw material prices and foreign currency fluctuation risk:** JFCEL's profitability is impacted due to fluctuations in raw material prices. Raw material costs (seamless steel tubes) account for nearly 70%-80% of JFCEL's of total operating income. Fluctuation in raw material prices, therefore, tends to impact the PBILDT margin. Any adverse change in the exchange rate between Chinese yuan/euros/Japanese yen and Indian rupee will have a negative impact on the company's financial performance as the company imported ~80% of total raw material from Italy, China, and Japan during FY20.

**Proposed debt-funded capex leading to moderation in debt coverage indicators:** The company is projecting a capex of ~Rs.62.00 crore to enhance its manufacturing capacity from 4,20,000 cylinders per annum (currently) to 5,40,000 cylinders per annum which is expected to be completed by FY22 and shall be funded through debt of ~Rs.46.00 crore while the remaining through internal accruals. The aforementioned capex is expected to deteriorate the capital structure and debt coverage indicators. As on March 31, 2020 the overall gearing stood at 1.54x. Total debt position of the company as on March 31, 2020 comprises of term loans to the tune of Rs.15.82 crore, unsecured convertible debentures to the tune of Rs.38.79 crore (subscribed by group companies with no fixed repayment structure and zero-coupon rate), working capital borrowings to the tune of Rs.35.48 crore, and L.C. Acceptances to the tune of Rs.10.36 crore. Debt coverage indicators remained modest as reflected by PBILDT interest coverage of 2.45x and total debt/GCA of 9.80x in FY20. The proposed debt is expected to keep the repayment obligations high in the ensuing year in commensuration with the expected cash accruals.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**High entry barriers and regulated nature of industry:** The existing stringent regulation w.r.t testing and clearance at multiple levels as per the directive of Petroleum and Explosive Safety Organization poses an entry barrier for new entrants to the high-pressure seamless cylinder manufacturing industry. Further, the companies also need to take approval of the Chief Controller of Explosives (CCOE) for import in India. Also, the companies operating in this industry are to follow stringent quality standards for manufacturing the cylinders. Thus, the industry is exposed to high entry barriers.

### Key Rating Strengths

**Experienced Management with long track record of operations:** JFECL is a part of JPM (J.P. Minda) group, which was formed by Mr. Jaideo Prasad Minda in the year 1959 which is now been taken forward by his son Mr. Ashwani Minda. Mr. J P Minda is a B.E. (Electrical) from BITS, Pilani and has 60 years of experience in the manufacturing and marketing of automotive components. The other promoter Mr. Ashwani Minda is a B. Tech. from IIT Delhi and is also engaged in the business as a director in other group companies. Group has nationwide operations with about 11 companies engaged in manufacturing of automobile parts (accessories, lock set, speed sensors, fuel level gauge, castings, moulds & dies etc.), electronics and energy products like batteries, e-rickshaws, energy meters etc. and wide range of LED products.

**Reputed Client base albeit concentrated:** JFECL has a reputed customer base consisting of OEM (Original equipment manufacturers) such as Maruti Suzuki India Limited, Tata Motors Limited, Mahindra and Mahindra Limited, Bajaj Auto Limited etc. Out of total operating income of Rs.281.89 Cr, the top four (as mentioned above) customers contributed Rs.261.66 crore which was ~93% of total operating income in FY20 leading to customer concentration risk.

**Moderate scale of operations:** The scale of operations remained moderate with company reporting marginal decline of 2.01% in total operating income to Rs.281.89 crore in FY20 as compared to Rs.287.68 crore in FY19 primarily on account of decline of 4.89% in sales realization as compared to FY19. However, for the period FY18-FY20, the total operating income of the company grew at a CAGR (compounded annual growth rate) of 20.93%. For the period 9MFY21 (refers to the period from April 01 to December 31), the company reported total operating income of Rs.200.00 crore.

**Operating linkages with group companies:** JFECL is a part of JPM group and has operational linkages to group companies. In May 2020, JFECL was merged into Lizer Cylinders Limited (group entity) and post-merger Lizer Cylinders Limited (LCL) changed its name to Jay Fe Cylinders Limited. As a result of merger, the total manufacturing capacity of JFECL increased from 2,40,000 cylinders per annum to 4,20,000 cylinders per annum as on December 31, 2020. As on March 31, 2020, JFCL had availed convertible debentures to the tune of Rs.38.79 crore from other group companies (part of JPM group) which have been subscribed at zero coupon rate with no scheduled repayment.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Factoring linkages- Parent sub JV group](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

### About the Company

Jay FE Cylinders Ltd, incorporated in the year 2008, is an ISO 9001:2008 and ISO/TS 16949:2009 certified business entity engaged in manufacturing of high-pressure seamless cylinders for storage of high-pressure gases such as compressed natural gas (CNG) for auto industry. Company has collaboration with JFE Containers and Marubeni Automotive (Japan) for providing technical know-how to Jay FE Cylinders Ltd. In May 2020, JFECL was merged into Lizer Cylinders Limited (group entity) and post-merger Lizer Cylinders Limited (LCL) changed its name to Jay Fe Cylinders Limited. The company has 2 manufacturing plants located in Bawal, Haryana and Gandhidham, Gujarat with a total manufacturing capacity of 4,20,000 cylinders per annum as on December 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21 (P)
Total operating income	287.68	281.89	88.19
PBILD	15.52	17.00	6.11
PAT	1.95	7.52	0.39
Overall gearing (times)	1.52	1.54	
Interest coverage (times)	3.05	2.45	

A: Audited, P: Provisional

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

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

**Complexity level of various instruments rated for this company:** Annexure 4

**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 - LT-Cash Credit		-	-	-	15.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-LC/BG/LOU(Letter of Undertaking) (Short term)		-	-	-	62.00	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - LT-Letter of credit		-	-	-	18.45	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	November, 2024	13.80	CARE BB; Stable; ISSUER NOT COOPERATING*

**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 - LT-Cash Credit	LT	15.00	CARE BB; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB+; Stable (02-Mar-21) 2)CARE BB+; Stable; ISSUER NOT COOPERATING * (23-Sep-20)	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (23-Jul-19)	1)CARE BBB-; Stable (22-May-18)
2	Non-fund-based - ST-LC/BG/LOU(Letter of Undertaking) (Short term)	ST	62.00	CARE A4; ISSUER NOT COOPERATING *	-	1)CARE A4+ (02-Mar-21) 2)CARE A4+; ISSUER NOT COOPERATING * (23-Sep-20)	1)CARE A4+; ISSUER NOT COOPERATING * (23-Jul-19)	1)CARE A3 (22-May-18)
3	Non-fund-based - LT-Letter of credit	LT	18.45	CARE BB; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB+; Stable (02-Mar-21) 2)CARE BB+; Stable; ISSUER NOT COOPERATING * (23-Sep-20)	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (23-Jul-19)	1)CARE BBB-; Stable (22-May-18)
4	Fund-based - LT-Term Loan	LT	13.80	CARE BB; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB+; Stable (02-Mar-21)	-	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-** Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Letter of credit	Simple
4	Non-fund-based - ST-LC/BG/LOU(Letter of Undertaking) (Short term)	Simple

**Annexure 5: Bank Lender Details for this Company**To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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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**About CARE Ratings Limited:**

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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