January 15, 2024

FJM Cylinders Private Limited: Ratings reaffirmed; outlook revised to Stable from Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Non-Fund based limits	127.50	165.00	[ICRA]BBB /[ICRA]A3+ reaffirmed; outlook revised to Stable from Negative; assigned to the enhanced amount
Long-term/ Short -term – Fund based limits	116.00	225.00	[ICRA]BBB /[ICRA]A3+ reaffirmed; outlook revised to Stable from Negative; assigned to the enhanced amount
Long-term Fund-based – Term loan	44.75	40.70	[ICRA]BBB reaffirmed; outlook revised to Stable from Negative
Long-term/ Short -term – Unallocated limits	14.75	32.30	[ICRA]BBB /[ICRA]A3+ reaffirmed; outlook revised to Stable from Negative; assigned to the enhanced amount
Total	**303.00**	**463.00**	

Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Stable from Negative factors in an expectation of improvement in FJM Cylinders Private Limited's (FJM) credit metrics going forward, aided by a ramp-up in scale of operations amidst healthy underlying demand for the passenger vehicle segment.

The ratings assigned to FJM continue to favourably factor in its established relationships with key Original Equipment Manufacturer (OEM) clients for supply of Compressed Natural Gas (CNG) cylinders. FJM's key customer, Maruti Suzuki India Limited (MSIL), remains highly focused on introducing CNG variants across its model range amid increasing acceptance for CNG vehicles in the country, aided by lower running cost and increased availability of CNG outlets across the county. Being a manufacturer of CNG cylinders for automobile applications as well as a key supplier to MSIL, FJM is well positioned to benefit from the increasing demand for CNG vehicles, which is likely to generate healthy cash flows going forward.

FJM reported a healthy revenue growth in FY2023 (revenues of Rs. 283.9 crore), aided by ramp up in supplies to its customers. The strong revenue growth has continued in the current fiscal, with the company reporting revenues of ~Rs. 262 crore (~115% YoY growth) in H1 FY2024. The scale-up in operations helped the company record healthy capacity utilisation levels; the company had expanded its capacity to 3.84 lakh cylinders/annum in FY2023 (total capex outlay of ~Rs. 53-55 crore to enhance capacity from 1.44 lakh cylinders/annum), factoring in healthy schedules from its customers. Even as the company has recorded healthy growth in revenues, its margins remained constrained (OPM of 9.4% in H1 FY2024 and 11.7% in FY2023, vis-à-vis 18.9% in FY2022), led by volume discounts offered to its customers as well as denominator effect (material increase in raw material prices over the past 12-18 months; even as the raw material price hike has been passed on to the customers, the conversion costs have remained largely unchanged).

The credit metrics of the company weakened in FY2023, led by subdued profitability and enhanced debt (term loan of ~Rs. 42 crore) undertaken to fund the capex plans. Aided by an improved scale of operations and resulting cash flows, the company's credit metrics are expected to report a gradual improvement, going forward (Total Debt/OPDBITA expected to moderate to ~3-3.5 times by FY2025). Even as FJM is expected to remain self-sufficient in meeting its capex requirements and debt repayments, the ratings continue to derive strength from the company being a part of the JBM Group, with Neel Metal Products Limited (NMPL; rated [ICRA]A (Stable)/[ICRA]A2+) as its holding company. The parentage of the JBM Group provides additional operational and financial support.

ICRA notes that the company has no material capex plans over the near term, with further capacity addition plans to be undertaken factoring in the ramp-up in supplies to OEMs and resulting production schedules; any material capex outlay towards capacity enhancement would remain a monitorable. The ratings remain constrained by FJM's high product concentration with entire revenues being generated from gas cylinders. Additionally, unlike other CNG kit manufacturers who cater to multiple industries like healthcare, firefighting, food and beverages, etc, FJM manufactures cylinders solely for automobile applications. Accordingly, it remains exposed to any slowdown in the automotive sector. The company is also exposed to client concentration risk with MSIL driving 90-95% of its revenues in FY2023. However, the revenue concentration risk is partly offset by MSIL's market leadership status in the Indian PV industry and expectation of ramp-up in supplies to other customers such as Hyundai Motors India Limited (HMIL) and Ashok Leyland Limited (ALL), going forward.

Key rating drivers and their description

Credit strengths

Established relationships with key OEMs provide revenue visibility - FJM has a 50-55% share of business with its major client, MSIL, and continues to gain business for various models of the OEM, making it a strategically important supplier for MSIL. Additionally, it is one of the key suppliers of Hyundai Motors India Limited (HMIL), Suzuki Motor Gujarat (SMG) and JBM Auto Limited, which provides healthy revenue visibility. FJM's business prospects remain healthy, aided by its key OEM client's increasing focus on introducing CNG variants for its models and growing demand for CNG-fuelled vehicles, which is expected to support volume and revenue growth over the medium term.

Favourable demand for CNG vehicles, given the regulatory push, lower running cost and healthy increase in CNG outlets across the country – ICRA expects the demand for CNG vehicles to improve over the near to medium term, aided by increasing availability of CNG with substantial increase in CNG outlets across the country, the continued regulatory push in the commercial taxi segment and favourable economics of using CNG vis-à-vis alternative fuels. Even as there was a spike in CNG prices in the current fiscal (August 2023 to January 2024), thereby moderating the pricing difference between CNG and alternate powertrains, the operating economics of CNG remain favourable and expected to continue to aid adoption.

Access to financial as well as operational support from parent entity – The JBM Group has an extensive presence in the Indian automotive industry and enjoys established relationships with various automotive OEMs. As part of the JBM Group, FJM benefits from shared synergies in material sourcing and managerial expertise. Further, the Group has a history of supporting FJM financially through equity infusion and unsecured loans. Although, going forward, FJM is expected to be self-sufficient in meeting its debt repayments and capex requirements, ICRA expects short-term funding support to come from the promoter group to meet temporary cash flow mismatches, as and when required.

Credit challenges

High dependence on MSIL; leadership position of the OEM in the PV industry mitigates the risk to some extent – MSIL accounted for ~90-95% of FJM's total revenues in FY2023, indicating significant client concentration risks. However, this is mitigated to some extent by the leadership position of MSIL in the PV industry. Further, ramp-up in supplies to other customers such as HMIL and ALL in the customer mix, along with plans to add new customers, is expected to reduce customer dependence to some extent over the medium term.

High product and segment concentration risks; exposed to slowdown in automotive sector – FJM is a single-product company, which manufactures CNG cylinders only for automobiles, indicating high product and segment concentration risks.

As such, any slowdown in the automotive sector could adversely impact its revenues. The improving demand for CNG vehicles mitigates the risk to an extent.

Debt-funded capex led to moderation in credit metrics in near term – The company incurred a capex of around Rs. 50-55 crore towards capacity enhancement (3.84 lakh cylinders/annum from 1.44 lakh cylinders/annum), in line with the healthy demand of CNG vehicles and higher sales expectation by MSIL. This has led to the moderation in the credit metrics of the company (Total debt/OPBITDA moderated to 7.4 times in FY2023 from 0.8 times in FY2022). The company has concluded the capex in FY2023 and has no near-term plans for additional capex. ICRA expects that healthy cash flow generation and payout of loans will help the company in gradually improving its credit metrics over the medium term.

Profitability exposed to fluctuation in prices of key raw materials and product mix – The primary raw material for the company is seamless steel tubes. FJM, like other players in the domestic industry, imports majority of its raw material requirements from Italy and China. The operations, therefore, remain susceptible to fluctuation in prices of seamless tubes. The company has a pass-through clause with its customers under which any change in raw material price is passed on to customers, albeit with a lag. However, while FJM's OPM had remained healthy in FY2021 and FY2022 at 19-20%, it declined to 11.7% in FY2023 and further to 9.4% in H1 FY2024, due to volume discounts, increase in RM prices (leading to denominator effect on margins) and increase in operating costs (post capacity expansion).

Liquidity position: Stretched

FJM's liquidity position is **stretched**, characterised by expectations of steady cash flows and high utilisation of working capital limits (limited buffer in working capital limits during the eight-month period ended in November 2023). Against this, the company has debt repayments of Rs. 8 crore in FY2024 and 13-14 crore per annum in FY2025 and FY2026. The company has no material capex plans over the near to medium term. The company's financial risk profile remains supported by financial support from its parent company.

Rating sensitivities

Positive factors – ICRA could upgrade FJM's ratings if the company is able to demonstrate a continued ramp up in the scale of operations, supported by gain of business from new customers. The ability of the company to improve profitability margins, leading to improvement in credit metrics and liquidity position would remain key.

Negative factors – ICRA could downgrade FJM's ratings in case of any material weakening in the credit profile of its parent company or weakness in linkages with the parent. A material deterioration in the credit metrics due to larger-than-expected dividend payout or debt-funded capex could also lead to downgrade in ratings. Specific credit metric for a downgrade is Interest coverage less than 3.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Parent/Group Company: Neel Metal Products Limited (NMPL) The ratings assigned to FJM factor in the very high likelihood of its parent entity, NMPL (rated [ICRA]A (Stable)/[ICRA]A2+), extending financial support to it because of the close business linkages between them and out of the need to protect its reputation from the consequences of a Group entity's distress. NMPL has historically provided financial support to FJM in the form of preference shares and unsecured loans.
Consolidation/Standalone	The ratings are based on standalone financial statements of the issuer.

About the company

FJM Cylinders Private Limited (FJM) started commercial operations in April 2014 and manufactures compressed natural gas (CNG) cylinders as well as cylinders of other high-pressure gases for supplies primarily to automobile OEMs. The company's manufacturing facility is at Bawal, Haryana, with a capacity of 3.84 lakh cylinders/annum. The company enhanced its capacity to 3.84 lakh cylinders/annum in FY2023 from 2.64 lakh cylinders/annum.

The company was set up as a 50:50 joint venture between Shreeeaumjee Infrastructure & Projects Private Limited (SAI, Indian promoter) and Faber Industries, Italy (foreign partner). Effective January 2016, 49% of Faber's stake was bought out by Neel Metal Products Limited (NMPL, rated [ICRA]A- (Stable)/ [ICRA]A2+, a JBM Group company). In FY2022, NMPL acquired a 50% stake from SAI and holds 99% stake in FJM at present.

Key financial indicators (audited)

FJM Standalone	FY2022	FY2023	H1 FY2024*
Operating income	227.8	283.9	262.0
PAT	29.7	10.9	-
OPBDIT/OI	18.9%	11.7%	9.4%
PAT/OI	13.1%	3.8%	-
Total outside liabilities/Tangible net worth (times)	0.9	2.6	-
Total debt/OPBDIT (times)	0.8	7.4	-
Interest coverage (times)	28.3	3.4	-

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of November 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 15, 2024	Jan 09, 2023	Dec 30, 2021	Oct 30, 2020
1	Term loans	Long term	40.70	37.21	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-
2	Fund-based limits	Long term and short term	225.00	--	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3
3	Non Fund Based Limits	Long term and short term	165.00	--	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3
4	Unallocated Limits	Long term and short term	32.30	--	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/ Short -term – Fund-based Limits	Simple
Long-term/ Short -term – Non Fund-based Limits	Very Simple
Long-term/ Short -term – Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	FY2023	NA	FY2027	40.70	[ICRA]BBB (Stable)
NA	**Long-term/ Short -term – Fund-based Limits**	NA	NA	NA	225.00	[ICRA]BBB (Stable) / [ICRA] A3+
NA	**Long-term/ Short -term – Non Fund-based Limits**	NA	NA	NA	165.00	[ICRA]BBB (Stable) / [ICRA] A3+
NA	**Long-term/ Short -term – Unallocated Limits**	NA	NA	NA	32.30	[ICRA]BBB (Stable) / [ICRA] A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - NA

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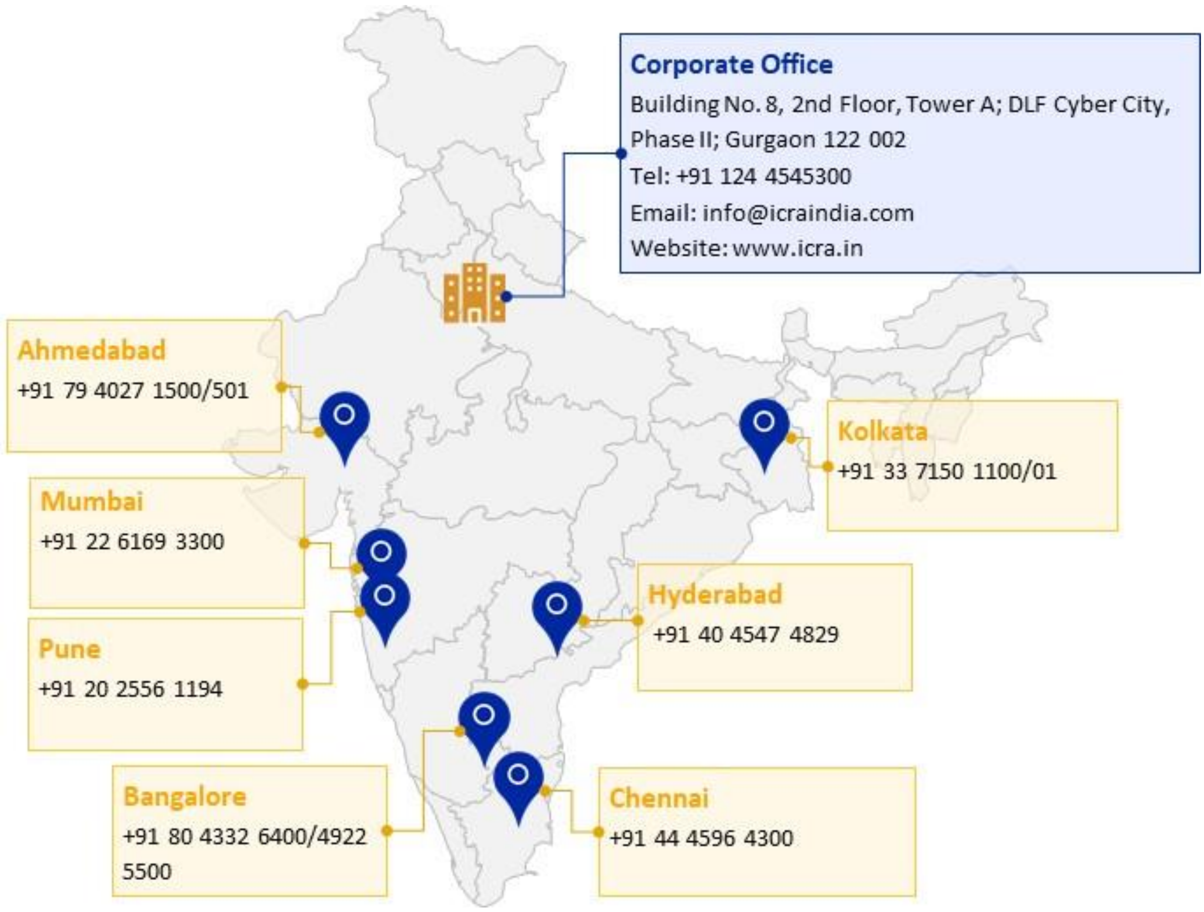

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