

October 30, 2020

## FJM Cylinders Private Limited: Ratings upgraded to [ICRA]BBB- (Stable)/ [ICRA]A3

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Term loans	6.13	0.00	-
Long-term and short-term: Fund-based limits	6.00	6.00	[ICRA]BBB-(Stable)/ [ICRA]A3; Upgraded from [ICRA]BB+(Stable)/ [ICRA]A4+
Long-term and short-term: Non-fund based limits	14.00	14.00	[ICRA]BBB-(Stable)/ [ICRA]A3; Upgraded from [ICRA]BB+(Stable)/ [ICRA]A4+
Long-term and short-term: Unallocated	52.62	58.75	[ICRA]BBB-(Stable)/ [ICRA]A3; Upgraded from [ICRA]BB+(Stable)/ [ICRA]A4+
<b>Total</b>	<b>78.75</b>	<b>78.75</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade takes into consideration expectations of improvement in business prospects of FJM Cylinders Private Limited (FJM), aided by the increasing acceptance of CNG-fuelled vehicles in India and in turn demand for CNG cylinders. Even as demand is likely to be impacted in the near term due to disruption caused by the pandemic, the company is likely to witness a healthy scale-up in volumes over the medium term aided by introduction of new Compressed Natural Gas (CNG) models by key customer, Maruti Suzuki India Limited (MSIL) amidst increasing acceptance of CNG-fueled vehicles in the country as well as new business gained from Hyundai Motor India Ltd. (HMIL). The rating upgrade also factors in the improvement in FJM's financial risk profile over the recent years, with steady reduction of debt levels and thereby strengthening of credit metrics. Despite expectations of contraction in earnings in the current fiscal due to the challenges brought about by the pandemic, ICRA expects the credit metrics to remain comfortable as the company has negligible external long-term debt and minimal capex requirements.

FJM's key customer, MSIL, is increasing its focus on introducing CNG variants for its models amidst increasing acceptance of CNG-fuelled vehicles in the country due to lower running cost on back of higher fuel efficiency. In FY2020, MSIL reported a growth of 1% in its CNG variants while the overall domestic sales of the OEM had contracted by 18%. With demand declining for diesel vehicles owing to a sharp increase in vehicle prices to adhere to stricter emission norms (BS-VI implementation) and increase in fuel prices, more customers are likely to shift towards CNG vehicles, given its lower upfront cost as well as better cost economics. In addition, the increasing rollout of the City Gas Distribution (CGD) network in various cities across the country and the regulatory push for adopting CNG as the key fuel in commercial taxi segment would support further penetration of CNG vehicles from the current 5% (in the PV industry).

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. The company's business prospects are further supported by new business gained from HMIL, which would commence from October 2020, and would contribute 15-20% to the total revenues over the medium term. Apart from MSIL and HMIL, FJM also has an established relationship

with Bajaj Auto Limited (BAL), SML Isuzu Limited (SML) and JBM Auto Limited (Group company), which also aides revenue visibility.

The rating action also favourably factors in the improving credit profile of the company, aided by a reduction in its debt levels with repayment of existing loans and improvement in operating cash flows, thereby limiting the dependence on external borrowings. The company's adjusted debt levels (excluding unsecured loans and advances from its parent company - Neel Metal Products Limited (NMPL, rated [ICRA]BBB+ (Negative)/[ICRA]A2, part of JBM Group) have steadily reduced to Rs. 9.9 crore in FY2020 vis-à-vis Rs. 26.1 crore in FY2018, aided by a minimal capex outgo and improving cash flows. The company has adequate capacity in place (currently operating at 35-40% of its capacity), and accordingly its capex requirements are expected to remain minimal over the near term. With negligible long-term debt repayments and no immediate major capital expenditure plans, the credit metrics are likely to improve over the medium term. Notwithstanding the recent improvement in credit profile, ICRA would continue to monitor the developments with respect to any significant debt-funded capex, including its impact on the credit metrics and this would remain a key rating sensitivity.

The ratings continue to derive strength from the company being a part of the JBM Group with NMPL as its holding company, which provides operational and financial support. NMPL extended financial support in the form of interest-free loans to support working capital requirements to the extent of Rs. 12.3 crore in FY2019, part of which has been repaid in the current fiscal. Although, going forward, FJM is expected to be self-sufficient in meeting its debt repayments and capex requirements, ICRA expects that short-term funding support would be available from the promoter group, in case of any requirement to meet the temporary cash flow mismatches.

Despite improving business prospects and credit profile, the ratings remain constrained by FJM's modest scale of operations and high product concentration with entire revenues being generated from gas cylinders. The company is also exposed to client concentration risk with Maruti Suzuki India Limited (MSIL) contributing to 75-80% of its revenues. However, the risk is partly offset by MSIL's market leadership status in the Indian passenger vehicle industry and gain of business from HMIL, which is expected to reduce the dependence on MSIL going forward.

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 slowdown in the automotive sector. The company reported a YoY revenue decline of 18% to Rs. 94.0 crore in FY2020 in line with the slowdown in the domestic automobile industry, and muted revenues of Rs. 4.7 crore in Q1 FY2021 because of the pandemic-related lockdown, which impacted sales significantly.

However, the revenues have started improving from July 2020, and it reported revenues of ~Rs. 31 crore in H1 FY2021 (H1 FY2020: ~Rs. 47 crore). While the company is expected to witness another year of contraction in revenues in FY2021 due to subdued performance in the first quarter, over the medium term, it has healthy revenue visibility with expectation of a healthy off-take from key OEMs like MSIL and incremental business from HMIL. Additionally, while earnings are also expected to weaken in FY2021 due to the losses incurred in Q1 FY2021 (EBITDA loss of Rs. 0.3 crore and PBT loss of Rs. 1.6 crore in Q1 FY2021), however, over the medium term, the operating profit margin is likely to remain stable in the range of 8-10%.

The Stable outlook on the long-term rating reflects ICRA's belief that FJM's business prospects remain healthy, given the established relationship of the JBM Group with various OEMs and favourable demand environment for CNG vehicles. The company's financial profile is also expected to remain comfortable, aided by increasing revenues, stable profitability, reducing debt levels and minimal capex plans.

## Key rating drivers and their description

### Credit strengths

**Established relationship with key OEMs provides revenue visibility** – FJM manufactures CNG and high-pressure gas cylinders for automobile OEMs. The company has a 30-40% share of business with its major client, MSIL, and continues to gain business from the OEM, making it a strategically important supplier for the OEM. Additionally, it is also one of the key suppliers to BAL, SML and JBM Auto, which ensures revenue visibility. The company has also secured business from HMIL in the current fiscal, which is expected to scale-up in FY2022 and contribute 15-20% of its revenues over the medium term.

**Favourable demand for CNG-fuelled 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 for CNG in the commercial taxi segment and favourable economics of using CNG vis-a-vis alternate fuels. The CNG network has increased considerably over the last two years (average addition of 350 stations per year) and the Government is planning to further increase the penetration of natural gas across the country by expanding the present network of 2,208 stations (as on April 1, 2020) to ~10,000 over the next five to six years.

**Improving business prospects from OEMs like MSIL and HMIL** – FJM's business prospects remain healthy, aided by MSIL's increasing focus on introducing CNG variants for its models and new business gained from HMIL, both of which are expected to support volume and revenue growth over the medium term.

**Strong financial as well as operational support from promoters** – The JBM Group has an extensive presence in the Indian automotive industry and has established relationships with various automotive OEMs. By being a part of the JBM Group, FJM benefits from the synergies in common material sourcing and managerial expertise. Further, the Group had supported and continues to support FJM financially through equity infusion and unsecured loans.

### Credit challenges

**High dependence on MSIL; leadership position of MSIL in the PV Industry and gain of business from HMIL mitigates the risk to some extent** – MSIL accounted for 80% of the total revenues of FJM in FY2020, indicating significant client concentration risks. However, this is mitigated to some extent, given the leadership position of MSIL in the PV industry. Furthermore, with the gain of business from HMIL, the client concentration is likely to reduce to some extent, going forward.

**High product concentration risk** – The company is a single product company which manufactures CNG cylinders only for automobiles, indicating a high product concentration risk.

**Exposed to slowdown in automotive sector; Current year earnings likely to be impacted by Covid-19 pandemic and associated lockdown** – As the company's presence is limited to manufacturing of CNG cylinders for automotive sector, any slowdown in the automotive sector could adversely impact its revenues. Given the Covid-19 pandemic and the resultant lockdown, which impacted sales significantly during H1 FY2021, the automobile industry volumes are likely to contract significantly in FY2021. While this will adversely impact FJM's earnings in the current fiscal, it will be mitigated partially by the new business gained from HMIL, as well as the improving demand for CNG vehicles.

## Liquidity position: Adequate

FJM's liquidity profile is adequate supported by expected cash flow generation of Rs. 5-7 crore in FY2021 and moderate utilisation of working capital borrowings (average buffer of Rs. 2.2 crore as against the sanctioned limit of Rs. 6.0 crore during the 13-month period ending in September 2020). As against this, the company has short-term debt repayments (towards buyer's credit) of Rs. 5.8 crore in FY2021 and minimal capex requirements. Overall, the company is expected to meet its debt obligations and capex requirements from available lines of credit and additional borrowings. In case of any shortfall in meeting the same from these sources, timely promoter support remains critical.

## Rating sensitivities

**Positive triggers** – Significant ramp up in the scale of operations with gain of business from existing or new customers and improvement in the profitability with RoCE above 14% on a sustained basis, while maintaining healthy credit metrics and liquidity position could trigger a rating upgrade.

**Negative triggers** – The ratings could face a downward pressure in case of significant weakening in the credit profile of its parent company. The ratings could also be downgraded in case of a prolonged weakness in demand in the automotive industry, consequently impacting the company's return and debt coverage indicators, or deterioration in the financial profile of the company due to any large debt-funded capex. Specific indicators that could lead to a downgrade include an interest cover of below 2.8 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Parent/Group Company: Neel Metal Products Limited (NMPL) NMPL, rated [ICRA]BBB+ (Negative)/[ICRA]A2, has historically provided financial support in the form of preference shares (Rs. 41.85 crore as on March 31, 2020) as well as unsecured loans (Rs. 12.3 crore as on March 31, 2020).
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer

## About the company

FJM started commercial operations in April 2014 and manufactures cylinders of compressed natural gas (CNG) as well as other high-pressure gases for supplies primarily to automobile OEMs. The company's manufacturing facility is in Bawal, Haryana and has the capacity to manufacture 1.5 lakh units p.a.

The company was set up as a 50:50 joint venture between Shreeeajee Infrastructure & Projects Private Limited (SAI, Indian Promoter) and Faber Industrie, Italy (foreign partner). Effective January 2016, 49% of Faber's stake was bought out by NMPL (a JBM Group company). Currently, the JBM Group, either directly or indirectly, holds a majority of the company's shares.

## Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	114.4	94.0
PAT (Rs. crore)	2.0	2.2
OPBDIT/OI (%)	8.2%	9.2%
PAT/OI (%)	1.8%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.1
Total Debt/OPBDIT (times)	3.2	3.1
Adjusted Total Debt <sup>^</sup> / OPBDIT (times)	1.5	1.2
Interest Coverage (times)	3.0	4.0

*Note: Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.; <sup>^</sup>Adjusted Debt excludes unsecured advances from promoters*

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

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					Oct-30-2020	Aug-19-2019	Jul-29-2019	-	Mar-30-2018
1	Term Loans	Long Term	0.00	-	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)
2	Fund-based Limits	Long Term/ Short Term	6.00	NA	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-
3	Non-fund Based Limits	Long Term/ Short Term	14.00	NA	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	[ICRA]BB+ (Stable)/ [ICRA]A4+
4	Unallocated	Long Term/ Short Term	58.75	NA	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	[ICRA]BB+ (Stable)/ [ICRA]A4+
5	Fund-based Limits/ Cash Credit Facilities	Long Term	-	-	-	-	-	-	[ICRA]BB+ (Stable)

Amount in Rs. crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits	NA	NA	NA	6.00	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Non-fund based limits	NA	NA	NA	14.00	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Unallocated	NA	NA	NA	58.75	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: FJM Cylinder Private Limited

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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