December 18, 2020

Jupiter Wagons Limited: [ICRA]A- (Stable)/A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	19.33	[ICRA]A-(Stable); Assigned
Fund Based – Working Capital Facilities	60.00	[ICRA]A-(Stable); Assigned
Non-fund Based – Working Capital Facilities	20.67	[ICRA]A2+; Assigned
Total	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings take into consideration Jupiter Wagon Limited's (JWL) established business position in the domestic wagon manufacturing business, its technical competence and backward integration, having designed key wagon parts in-house and its comfortable debt metrics, as indicated by healthy debt coverage indicators and low gearing. While assigning the ratings, ICRA has evaluated the combined financial indicators of JWL and its 45.45% associate, Commercial Engineers and Body Builders Limited (CEBBCO), given the operational and financial linkages between them. ICRA also notes that a merger of the two companies has been filed and is awaiting regulatory approvals. The ratings draw comfort from JWL's outstanding order book of ~Rs. 1,200 crore, which is over 1.4 times of FY2020 sales and provides revenue-cum- cash flow visibility to the standalone entity. While the financial performance of CEEBCO has been weak in the past, as indicated by its regular losses in business and adverse debt coverage indicators, a healthy order book for wagons, worth ~Rs. 160 crore, coupled with an increased demand from the commercial vehicle (CV) industry, is likely to result in a turnaround in performance of CEBBCO in FY2021.

The above strengths are partially offset by high client concentration risks of the combined entity, with orders from the Indian Railways (IR) accounting for the major portion of the combined order book. ICRA notes that sales to the IR contribute over 70% to JWL's revenue and hence regular wagon orders from the IR are key to stable cash flows of the company. Inadequate order inflow from the IR in the past vis-a-vis its wagon manufacturing capacity had resulted in JWL reporting moderate levels of return on capital employed (RoCE). Nevertheless, an increasing number of private sector wagon orders and a favourable outlook on steady order inflow from the IR, given the latter's focus on increasing its freight business, mitigate such risks to an extent. While assigning the ratings, ICRA has noted JWL's plans to invest in joint ventures (JV) over the near to medium term. These investments are mainly aimed towards acquisition of technologies, which are likely to strengthen the operating profile of the company over the long term. The extent of returns, both operational and financial, as well as the funding pattern of the investments would have an impact on the overall risk profile of the company going forward. Over the short to medium term, ability to increase the scale of business of the combined entity while maintaining healthy margin and liquidity would be key rating sensitivities.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that cash flows of the combined entity would remain comfortable relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Comfortable consolidated debt protection – JWL's financial profile is healthy as indicated by its steady cash accruals, healthy debt coverage indicators and a low gearing. ICRA notes that the key financial ratios remain comfortable even after considering CEBCCO's debt, and the liabilities against the same, as part of JWL.

Strong technical capabilities and backward integration – JWL has strong technical capabilities in its wagon manufacturing business having designed key wagon parts like cold rolled form (CRF) sections, in house in the past. Moreover, the company is in the process of developing high-speed braking systems, another critical component, through a collaboration with an overseas partner. JWL's success in developing this component would improve the overall business profile of the company, going forward.

Healthy order book position – JWL's order book position remains healthy with an outstanding order book of ~1.4 times of FY2020 revenue. The healthy order book position provides revenue visibility.

Diversifying revenue base with healthy private sector wagon orders – JWL along with CEBCCO receives regular orders from the private sector. Such orders diversify the revenue base and provide superior margins compared to orders from the IR.

Favourable outlook for wagon orders from Indian Railways - Demand for wagons from the IR is likely to remain strong given its focus on expanding the freight business. Regular orders from the IR are key to stable cash flows to the company.

Credit challenges

High customer concentration risks – JWL's customer concentration risk is high as more than 70% of the company's revenue is generated from the IR. Nevertheless, regular and increasing orders from the private sector mitigate such risks to an extent.

Weak standalone financial profile of CEBBCO - CEBBCO's standalone financial profile is weak, as indicated by regular losses in business and adverse debt coverage indicators. The company's business is likely to turn around in the current financial year with regular supply to the IR and improving demand scenario from the commercial vehicle industry.

Moderate levels of return on capital employed – JWL historically has reported moderate levels of returns on capital employed (RoCE) because of its moderately high working capital intensive business and inadequate capacity utilisation. The company's ability to sustainably maintain a high capacity utilisation, which in turn would result in an improvement in RoCE, is a key rating sensitivity.

Liquidity position: Adequate

JWL's liquidity is **adequate** with healthy annual cash flow from operations of nearly Rs. 50 crore, no major capex commitment for FY2021 and moderate working capital utilisation levels of less than 50%. The company has prepaid a significant portion of its term loan in FY2021 through an equity infusion under Foreign Direct Investment (FDI). Going forward, the total debt commitment stands reduced. Overall, ICRA expects JWL to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient surplus.

Rating sensitivities

Positive triggers – ICRA could upgrade JWL's ratings if the company is able to sustainably scale up its operations while maintaining profitability at healthy levels. A turnaround in the business of CEBBCO, leading to a consolidated RoCE of more than 16%, would be a specific trigger for a rating upgrade.

Negative triggers – JWL's ratings would come under pressure if a slowdown in order inflows lead to a lower capacity utilisation and a consequent fall in operating income and profits. A specific trigger for a rating action would be consolidated interest cover remaining under 4.0 times on a sustained basis. Any debt-funded capacity expansion/business acquisition could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	While assigning the ratings, ICRA has taken a consolidated view of Jupiter Wagons Limited and its 45.45% associate, Commercial Engineers & Body Builders, given the close operational and financial linkages between the entities. The ratings are based on the consolidated financial profile of the company. As on March 31, 2020, the company had one associate and one joint venture, that are enlisted in Annexure 2.

About the company

Jupiter Wagons Limited (JWL), incorporated in 2006, is a part of the Jupiter Group of Kolkata and is a leading player in the Indian railway wagon manufacturing industry. On a standalone basis, JWL has a capacity to manufacture ~3,000 wagons annually and is backward integrated with a foundry shop to manufacture various components of a wagon like couplers, bogies, draft gears, CRF section, etc. JWL acquired a 45.45% stake in Commercial Engineers and Body Builders Limited (CEBBCO) in FY2019 under a debt resolution plan of the latter. CEBBCO is traditionally involved in the business of manufacturing bodies of commercial vehicles and has recently forayed into the wagon manufacturing business with a capacity of ~1,400 wagons annually. CEBBCO has initiated a reverse merger with Jupiter Wagons Limited. The merger, if approved, would provide the entities a larger scale and both JWL and CEBBCO are likely to benefit from the resulting business synergy.

In FY2020, JWL reported a standalone net profit of Rs. 39.4 crore on an operating income of Rs. 812.6 crore compared to a net profit of Rs. 7.3 crore on an operating income of Rs. 544.7 crore in the previous year.

In FY2020, CEBBCO reported a standalone net loss of Rs. 0.1 crore on an operating income of Rs. 125.7 crore compared to a net profit of Rs. 88.7 crore on an operating income of Rs. 215.8 crore in the previous year.

Key financial indicators (audited, Standalone)

	FY2019	FY2020
Operating Income (Rs. crore)	544.7	812.6
PAT (Rs. crore)	7.3	39.4
OPBDIT/OI (%)	8.4%	11.6%
PAT/OI (%)	1.3%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.1
Total Debt/OPBDIT (times)	2.6	1.3
Interest Coverage (times)	2.9	3.9

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	FY2019	FY2019	FY2019	FY2018
					18-Dec-2020		09-May-2019	26-Feb-2019	24-Sep-2018	10-Aug-2018	
1	Fund Based – Term Loan	Long Term	19.33	19.33	[ICRA]A- (Stable)	-	-	-	-	-	-
2	Fund Based – Working Capital Facilities	Long Term	60.00	50.00	[ICRA]A- (Stable)	-	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING* ; Withdrawn	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB+@ (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB+@ (Stable)	-
3	Non-fund Based – Working Capital Facilities	Short Term	20.67	-	[ICRA]A2+	-	[ICRA]A3 ISSUER NOT COOPERATING* ; Withdrawn	[ICRA]A3 ISSUER NOT COOPERATING*	[ICRA]A2 @ ISSUER NOT COOPERATING*	[ICRA]A2 @	-

@ placed on rating watch with negative implications

*Issuer did not co-operate; based on best available information

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 – Term Loan	FY2019	8.8% - 9.5%	FY2024	19.33	[ICRA]A-(Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	60.00	[ICRA]A-(Stable)
NA	Non-fund Based – Working Capital Facilities	NA	NA	-	20.67	[ICRA]A2+

Source: Jupiter Wagons Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Commercial Engineers and Body Builders Limited	45.45%	Equity Method
JWL Dako CZ India Limited	50.00%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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