March 31, 2022

Jupiter Wagons Limited: Long term rating upgraded to [ICRA]A from [ICRA]A-; short term rating reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	19.50	19.50	[ICRA]A; rating upgraded from [ICRA]A-; Outlook revised to 'Positive' from 'Stable'
Long-term Fund-based - Working Capital Facilities	112.00	112.00	[ICRA]A; rating upgraded from [ICRA]A-; Outlook revised to 'Positive' from 'Stable'
Short-term Non-fund Based - Working Capital Facilities	293.50	293.50	[ICRA]A2+; rating reaffirmed
Short-term Fund-based - Working Capital Facilities	3.00	3.00	[ICRA]A2+; rating reaffirmed
Total	**428.00**	**428.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has evaluated the combined financial profile of Jupiter Wagon Limited (JWL) and its associate, Commercial Engineers and Body Builders Limited (CEBBCO) (together referred to as JWL Group), given the strong operational and financial linkages between the companies. The two entities are in the process of merger, which is expected to be concluded shortly.

The rating action reflects ICRA's expectation that the JWL Group's financial risk profile will witness substantial improvement over the next 12-18 months, supported by over 50% YoY growth in turnover and healthy improvement in order book, which along with ramp-up in operations of its JVs should aid margin expansion. Supported by healthy accruals, the leverage and coverage metrics are expected to improve with total debt/OPBIDTA below 1.0 times and interest cover above 6 times in FY2023 against 1.35 times and 4.2 times, respectively, in FY2021, and 1.1 times and 5.1 times, respectively, in FY2022. The ratings note the JWL Group's established position in domestic railway wagon manufacturing, its technical competence and backward integration, having designed key wagon parts in-house. The ratings draw comfort from JWL's outstanding order book of ~Rs. 713.82 crore, which is over 1.06 times of FY2021 sales. The strong pipeline of orders for wagons from the Indian Railways (IR) provide revenue visibility to the standalone entity. CEEBCO's financial performance has been weak in the past, as reflected by its net losses and adverse debt coverage indicators. However, healthy orders for wagons and commencement of containers lines, coupled with an increased demand from the commercial vehicle (CV) industry, has helped CEBBCO in improving its performance, which is likely to continue in FY2023.

The above strengths are partially offset by high client concentration risks with orders from IR accounting for a major portion of the combined order book and over 70% of JWL's revenue. Hence regular wagon orders from the IR remain the key for stable cash flows. Nevertheless, an increasing number of private sector wagon orders and a favourable outlook on the order inflow from the IR, given the latter's focus on increasing its freight business, mitigate such risks to an extent over the medium term. The wagon manufacturing industry is working capital-intensive, wherein sizeable funds get blocked in inventory due to elongated throughput time as well as milestone-based billing. Given its strong revenue growth expectations, the ability to judiciously manage its cash conversion cycle and timely enhancement of working capital lines from its lenders remain crucial to maintain a comfortable liquidity position.

While assigning the ratings, ICRA has noted JWL's investment plans in the JVs, which are into manufacturing of braking systems, and brake disk. These investments are mainly aimed towards acquisition of technologies, which are likely to strengthen its operating profile over the long term with higher backward integration. Nevertheless, the extent of returns, both operational and financial, as well as the funding pattern of the investments would have an impact on its overall risk profile going forward.

The Positive outlook on the rating reflects ICRA's opinion that the JWL Group will benefit from the sizeable wagon tender from IR, which will increase its capacity utilisation and support its operating profitability as well as enhance its competitive position. Over the near to medium term, its ability to increase the Group's scale of business, while improving its profit margin and liquidity, would be key rating sensitivities.

Key rating drivers and their description

Credit strengths

Improved scale of operations, and favourable outlook for wagon orders from IR – JWL's operating income (OI) witnessed a CAGR of 18.4% during the last five years from FY2017 to FY2021, supported by healthy order inflow from IR and timely execution of the same. Also, steady order inflows from the private sector helps in diversifying its revenue base and provides a higher margin. IR is in the process of tendering a huge order for procurement of 90,000 wagons to be supplied over the next three years. Given the past track record, the JWL Group is expected to garner significant share of this, which is likely to support its order inflow and revenue visibility.

Comfortable leverage and debt coverage metrics – JWL's financial profile is healthy as indicated by its steady cash accruals, healthy debt coverage indicators and a low gearing. It has interest coverage of 4.2 times and TOL/TNW of 0.3 times as on March 31, 2021, which is expected to improve to 5.1 times and 0.2 times, respectively, in FY2022 and 6.5 times and 0.2 times, respectively, in FY2023.

Strong technical capabilities, tie-ups 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 overseas partner. JWL's success in developing this component would improve the Group's overall business profile, going forward.

Credit challenges

High customer concentration risks – IR contributed to over 70% - 75% of JWL's sales on an average over the past few years. Due to high dependence on a single client, there have been higher volatility in revenues in the past with revenues declining by 60% in FY2018, and 17% in FY2021 primarily due to lower order inflows/execution for IR. Nevertheless, steady order inflows from the private sector will reduce this risk over the medium term.

Working capital-intensive nature of operations – The company's operations involve significant inventory as billing and payment are milestone based. The inventory days in the past have ranged within 90-120 days. Further, there are sizeable security deposits/balances with Government authorities, resulting in an increase in working capital requirement. However, the Group reported a receivable period of less than 45 days, which along with availability of credit period from suppliers and healthy net worth, supported by accruals and equity raised in the past, led to low dependence on working capital borrowing. Nevertheless, with the expected increase in scale of operations, the working capital requirements are likely to increase and its ability to efficiently manage its cash conversion cycle will remain important.

Raw material price volatility risk – The company is exposed to fluctuations in raw material prices, which can impact its profitability, as all the contracts do not have an in-built price variation clause.

However, it mitigates this risk, to an extent, by maintaining a raw material inventory. This helps to lock-in the raw material rates prevailing at the time of signing the fixed-price contracts.

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Liquidity position: Adequate

JWL's liquidity is expected to remain adequate, supported by healthy annual cash flow from operations, limited capex commitment going forward, and moderate working capital utilisation levels of less than 50%. The company has prepaid a significant portion of its term loan in FY2021 through funds raised from investors of Rs. 85 crore. Its cash flow from operations are likely to remain comfortable to meet its annual debt repayment obligations of Rs 6-10 crore over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade JWL Group's ratings if the company is able to sustainably scale up its operations while improving profitability and maintaining healthy working capital intensity and liquidity cushion.

Negative factors – The ratings would come under pressure if there is any slowdown in order inflows or deferment in delivery schedule of orders from IR, leading to a lower capacity utilisation and a consequent decline in OI and profits. Additionally, the consolidated interest coverage ratio remaining under 5.0 times, on a sustained basis, or any large debt-funded capex or deterioration in working capital intensity could also trigger 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 the combined financial profile of Jupiter Wagon Limited (JWL) and its associate, Commercial Engineers and Body Builders Limited (CEBBCO) (together referred to as JWL group) given the strong operational and financial linkages between them. The two entities are in the process of merger, which is expected to be concluded shortly. The entities considered are enlisted in Annexure 2.

About the company

JWL, incorporated in 2006, is a part of the Kolkata-based Jupiter Group and a leading player in the Indian railway wagon manufacturing industry. On a standalone basis, JWL has a capacity to manufacture ~4,200 wagons annually and is backward integrated with a foundry shop to manufacture various components of a typical wagon like couplers, bogies, draft gears, CRF section, etc.

CEBBCO is an associate of JWL since JWL acquired a 45.45% stake in it in FY2019 under a debt resolution plan of the latter. CEBBCO was traditionally involved in manufacturing bodies of commercial vehicles and has recently forayed into the wagon manufacturing business. JWL had given a corporate guarantee against the term loan and working capital loans taken by CEBBCO. JWL is in the process of merging with CEBBCO through a reverse merger and the combined entity will be listed on stock exchanges.

JWL has JVs and partnerships with European major Tatravagonka a.s of Slovakia, DAKO-CZ of Czech Republic, Kovis d.o.o of Slovenia, Taleres Alegria S.A of Spain, Frenoplast S.A. of Poland and LAF-CIM group of France.

Key financial indicators (audited)

JWL and CEBBCO combined*	FY2020	FY2021
Operating Income (Rs. crore)	938.4	995.8
PAT (Rs. crore)	35.3	45.4
OPBDIT/OI (%)	10.3%	10.7%
PAT/OI (%)	3.8%	4.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.3
Total Debt/OPBDIT (times)	1.9	1.3
Interest Coverage (times)	3.2	4.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**ICRA had consolidated the financials of the two entities for its analysis*

Source: ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019		
					Mar 31, 2022	Dec 28, 2020	Dec 18, 2020	May 09, 2019	Feb 26, 2019	Sep 24, 2018	Aug 10, 2018
1	Term Loans	Long-term	19.50	11.99	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	--	--	--	--
2	Fund based working capital facilities	Long-term	112.00	--	[ICRA]A (Positive)	[ICRA]A- (Stable)	[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	293.50	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A3 (Stable) ISSUER NOT COOPERATING*; Withdrawn	[ICRA]A3 ISSUER NOT COOPERATING *	[ICRA]A2@ ISSUER NOT COOPERATING*	[ICRA] A2@
4	Fund based working capital facilities	Short-term	3.00	--	[ICRA]A2+	[ICRA]A2+	-	--	--	--	--

@ placed on rating watch with negative implications *Issuer did not co-operate; based on best available informationComplexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund Based – Term Loan	Simple

Long Term Fund Based – Working Capital Facilities	Simple
Short Term Non-Fund Based – Working Capital	Very Simple
Short Term Fund Based – Working Capital Facilities	Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based – Term Loan	FY2019	8.8-9.5%	FY2024	19.50	[ICRA]A (Positive)
NA	Fund Based – Working Capital Facilities	--	--	--	112.00	[ICRA]A (Positive)
NA	Non-Fund Based – Working Capital	--	--	--	293.50	[ICRA]A2+
NA	Fund Based – Working Capital Facilities	--	--	--	3.00	[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jupiter Wagons Limited	-	Full Consolidation
Commercial Engineers and Body Builders Limited	-	Full Consolidation
JWL Dako CZ India Limited	50.00%	Equity Method
JWL Kovis (India) Private Limited	50.00%	Equity Method

Source: *JWL, CEBBCO, ICRA Research*

Note: *ICRA has taken a consolidated view of JWL (along with its subsidiaries and JVs), and CEBBCO while assigning the ratings.*

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