

March 22, 2024

Jupiter Wagons Limited (formerly Commercial Engineers & Body Builders Company Limited): Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	305.00	305.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Long-term – Fund-based – Term loan	26.50	26.50	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Short-term – Non-fund based	730.50	730.50	[ICRA]A1+; upgraded from [ICRA]A1
Total	1,062.00	1,062.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the ratings of Jupiter Wagons Limited (JWL) reflects the strong YoY revenue growth of 76% and 63% in FY2023 and 9M FY2024, respectively, driven by healthy order inflow and execution for freight wagons from Indian Railways (IR) as well as private players. Given the scale-up in operations (yielding operating leverage), improved realisations and continued backward integration, the company's profitability margins improved to 12.3% and 13.6% in FY2023 and 9M FY2024 from 9.7% in FY2022, respectively. The company is expected to sustain the revenue growth over the medium term, aided by its healthy order book, favourable demand prospects for domestic wagon manufacturers and JWL's established market position as one of the largest domestic wagon manufacturers in the country. The revenue is projected to remain at ~Rs. 5,000 crore with EBIDTA at 13%-14% for FY2025. The ratings favourably note its strong financial profile, as reflected in its robust return and credit metrics with RoCE and interest cover estimated to be over 30% and 10 times in FY2024e. JWL has low indebtedness, which coupled with net worth augmentation through QIP of ~Rs. 528 crore, further strengthened the capital structure in YTD FY2024. The ratings continue to factor in the company's technical competence, supported by technology tie-ups with reputed global players and its significantly backward-integrated operations.

As on December 31, 2023, the company had an order book of ~Rs. 7,076 crore, which translates into an order book to operating income (OB/OI of trailing 12 quarters) ratio of 2.2 times providing revenue visibility over the next 15-18 months. While it has significant capex and investment plans (Rs. 1,000-1,500 crore over the next 2-3 years), the same are expected to be funded mainly through internal accruals and further equity infusion. Given the expectation of limited debt-funded capex and healthy operating profit margins, leverage, and debt coverage metrics are likely to remain comfortable.

The above strengths are partially offset by exposure to risks relating to fluctuation in raw material prices, intense competition (in tender-based awarding by IR) and working capital-intensive operations. The orders from private players are generally fixed price in nature, given their short tenor, which exposes the company to risk pertaining to adverse volatility in prices. To mitigate this risk, JWL places back-to-back RM order at the time of securing the private sector orders. Further, the wagon manufacturing business is working capital-intensive in nature, wherein sizeable funds get blocked in inventory due to elongated throughput time as well as milestone-based billing. Considering its strong revenue growth expectations, the ability to judiciously manage its cash conversion cycle remain crucial to maintain a comfortable liquidity position. Notwithstanding the favourable demand outlook for the domestic railway industry, given the high client and product concentration with freight wagons from IR accounting for a major portion of the order book and ~45-50% of revenues over the last three years, the company's ability to diversify its product and revenue profile would remain important to sustain its growth over the long term.

ICRA expects the company to grow organically and inorganically over the medium term, to gain access to new customers, products (braking, wheelsets) and technology (regarding electric mobility, etc). Large debt funded expansion, if any, will be evaluated on a case-to-case basis. Its ability to scale-up and stabilise the operations under these ventures and generate commensurate returns, would remain important from the credit perspective going forward.

The Stable outlook on the long-term rating reflects ICRA's expectations that JWL will sustain its revenue growth momentum, supported by orders in hand. The outlook underlines ICRA's expectation that the company will fund its incremental capex and investments in a manner that allows it to maintain a low leverage and comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Healthy orderbook position and favourable outlook for the domestic freight wagons – Healthy traction in volumes as well as realisation for wagons enabled the company to report a healthy YoY growth of 76% in FY2023 and 87% in 9M FY2024. The company reported an order book of ~Rs. 7,076 crore as on December 31, 2023 (OB at 2.2 times trailing twelve months OI), driven by planned enhancement in capacities. The same is expected to support JWL's near-term revenue growth with revenue estimated to remain at ~Rs. 5,000 crore with EBITDA at 13%-14% for FY2025. Given the Government's thrust on development of rail logistic infrastructure, the demand prospects for the company remain favourable. ICRA expects the revenues to remain supported by healthy orders anticipated for wagons (from IR as well as private players), coupled with incremental revenue from the foray into newer segments such as brake disc, hubs, brake systems, electric mobility (e-CV, drones), etc.

Comfortable financial risk profile – JWL's financial profile is healthy, as indicated by healthy cash accruals, low leverage (Total Debt/OPBITDA at 0.9 times and TOL/TNW at 1.0 times as on September 30, 2023. The same is expected to remain at ~1.0 times and ~0.8 times, respectively, as on March 31, 2025), with robust coverage metrics (interest cover of 11.3 times as on December 31, 2023). JWL has low indebtedness, which coupled with net worth augmentation through QIP of ~Rs. 528 crore, further strengthened the capital structure in YTD FY2024. The near-term capex and investments are planned to be funded via QIP proceeds and internal accruals with minimal reliance on debt. ICRA, therefore, expects the coverage indicators to remain comfortable in the medium term.

Strong technical capabilities, tie-ups, and backward integration – JWL has strong technical capabilities in the wagon manufacturing business and has designed key wagon parts, like cold rolled form (CRF) sections, in-house in the past. At present, the company has an installed capacity of ~9,600 wagon per annum, which is planned to be enhanced to 12,000 wagons per annum by Q1 FY2025. Its operations are backward integrated with in-house foundry shop that manufactures around 2,500 MT of casting components per month (include bogies, couplers, and draft gears; expected to be enhanced to 3,000 MT by end of FY2024 and further to 5,000 MT over the next 15- 18 months). The backward integration helps the company control its costs and quality. In FY2024, JWL ventured into manufacturing of brake disc and hubs (under a JV with JWL Kavis operationalised in December 2023) and brake systems for rolling stock (JV with Czech-based Dako CZ, where it has received an order for Rs. 112 crore, production for which will commence in Q1 FY2025). Its ability to stabilise and scale up these businesses, which could support margin expansion, will be a key monitorable in the medium term.

Credit challenges

Working capital-intensive operations – The company's operations involve maintaining significant inventory (ranging between 100-115 days to mitigate raw material price fluctuation risk) and milestone-based billing. Further, there are sizeable security deposits/balances with the Government authorities, resulting in an increase in working capital requirement. However, availability of credit period from suppliers, advances from private sector customers and healthy internal accrual generation have supported the company's low dependence on working capital borrowings. With the expected increase in scale of operations, the working capital requirements are likely to rise and its ability to efficiently manage its cash conversion cycle will remain important.

Vulnerability of profitability to raw material price fluctuations and competition – The company is exposed to fluctuations in raw material prices (mainly steel), which can impact its profitability. While orders from Indian Railways have built in price variation clauses, private sector contracts do not have the same due to their shorter tenor. To mitigate this risk, it places back-to-back RM order at the time of securing the private sector orders and maintains adequate raw material inventory. Prudent bidding, judicious inventory management and healthy backward integration is expected to support margins.

Environmental and social risks

Environmental considerations – JWL adheres to various industry standards and is maintaining the environmental management system to ISO 14001 standards. The company has onboarded an authorised recycler for the safe disposal of hazardous and non-hazardous waste. Given that rail systems manufacturing activity generates air and noise pollution, entities in this sector remain exposed to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality. However, major facilities are in the outskirts of the city, where likelihood of any emission control restrictions is limited.

Social considerations – JWL, like most railway component suppliers, has a high dependence on human capital. As such, retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations for the entity. The entities in the industry could also face social risks stemming from the health and safety concerns of workers, manifestation of which could invite regulatory or legal action, besides reputational harm. While these issues have not hindered JWL’s expansion plans in the past, these risks could potentially result in cost overruns for its extensive medium-term expansion/diversification plans.

Liquidity position: Adequate

JWL’s liquidity is expected to remain adequate, supported by healthy cash flows from operations, cash and liquid investments available (Rs. 400.5 crore as on December 26, 2023) in addition to the buffer in the working capital limits (average utilisation was ~50% for 12-month period that ended in December 2023). While the company has sizeable capex and investment plans (Rs. 1,000-1,500 crore over the next 2-3 years) and incremental working capital to support the scale-up in operations, the same are anticipated to be funded through internal accruals with low reliance on debt. Its cash flow from operations are likely to remain comfortable to meet its annual debt repayment obligations (Rs. 8-10 crore in FY2025).

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a sustained improvement in its scale of operations, along with a material improvement in business diversification. Moreover, its ability to sustain low leverage and strong debt coverage metrics and improve its liquidity position will also remain vital for a rating upgrade.

Negative factors – Pressure of the ratings could arise if any major slowdown in order inflows significantly impacts the company’s revenues or there is moderation in profitability margins or deterioration in the working capital cycle. Additionally, the ratings may be downgraded if any large debt-funded capex or investment weakens JWL’s leverage and coverage metrics. Specific credit metrics for the rating downgrade include consolidated TD/OPBDITA over 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JWL. As on December 31, 2023, JWL had two subsidiaries and four joint ventures (JV) which are enlisted in Annexure-II.

About the company

Incorporated in 1979, Jupiter Wagons Limited (JWL, formerly known as Commercial Engineers and Body Builders Co Limited or CEBBCO) became an associate of the erstwhile JWL since the latter acquired a 45.45% stake in FY2019 under a debt resolution plan. CEBBCO was traditionally involved in manufacturing bodies of commercial vehicles and later forayed into the wagon manufacturing business. JWL merged with CEBBCO through a reverse merger. The combined entity name was changed to Jupiter Wagons Limited (JWL) w.e.f. May 25, 2022.

JWL is currently involved in manufacturing under two broad segments – railway and non-railway. Under the railway business, it has a capacity to manufacture ~9,600 freight 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. In the non-railway business, it manufactures load bodies for commercial and heavy vehicles, commercial electric vehicles (first e-CV expected to be launched in Q1 FY2025) and containers (like marine container, refrigerated container, truck mounted container and cold chain transport containers). The company has European major Tatravagonka a.s of Slovakia as a strategic investor and promoter (19.2% shareholding as on December 31, 2023) and has formed technology partnerships through joint ventures (JVs) with DAKO-CZ of Czech Republic, Kovis d.o.o of Slovenia, Taleres Alegria S.A of Spain to manufacture key railway components like brake systems, brake disc, axel and gear box and weldable cast manganese steel (WCMS) crossings.

Key financial indicators (audited)

JWL – Consolidated	FY2022	FY2023	9m FY2024
Operating income (Rs. Crore)	1178.4	2068.2	2528.3
PAT (Rs. Crore)	50.0	125.4	227.5
OPBDIT/OI (%)	9.7%	12.3%	13.5%
PAT/OI (%)	4.2%	6.1%	9.0%
Total outside liabilities/Tangible net worth (times)	0.5	1.0	NA
Total debt/OPBDIT (times)	1.2	1.1	NA
Interest coverage (times)	6.3	8.8	11.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation ; NA: Information not available
Source: Jupiter Wagons Limited, ICRA Research; All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023				Date & rating in FY2022			
					Mar 22, 2024	Mar 23, 2023	Nov 21, 2022	Oct 07, 2022	Mar 31, 2022	Jan 27, 2021	Jan 4, 2021	Nov 23, 2020
1 Cash credit	Long term	305.00	-	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (CE)&
2 Term loan – I	Long term	14.83	1.2	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (CE)&

Term 3 loan – II	Long term	11.67	8.4	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB-&
Non- 4 fund based	Short Term	730.5	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A3(CE) &
5 Fund- based	Short Term	-	-	-	-	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A4&
6 Unallo- cated	Long Term/S hort Term	-	-	-	-	-	-	-	-	-	[ICRA]BB- &/A4&

&-ratings watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Term loans	Simple
Short-term – Non-fund based	Very 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 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	Fund-based – Cash credit	NA	NA	NA	305.00	[ICRA]AA-(Stable)
NA	Fund-based – Term loan-I	FY2021	8.80%	FY2027	14.83	[ICRA]AA-(Stable)
NA	Fund-based – Term loan-II	FY2021	9.50%	FY2027	11.67	[ICRA]AA-(Stable)
NA	Non-fund based	NA	NA	NA	730.50	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	JWL's Ownership	Consolidation Approach
Jupiter Wagons Limited	- Rated entity	Full Consolidation
JWL Dako CZ India Limited	50.00%	Equity Method
JWL Kovis (India) Private Limited	50.00%	Equity Method
JWL Talegria (India) Private Limited	50.00%	Equity Method
Jupiter Electric Mobility Private Limited	60.00%	Full Consolidation
Habitat Real Estate LLP	90.00%	Full Consolidation

Source: Company

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