ICRA

January 09, 2017

JBM Auto Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loan	102.19 (from 114.16)	[ICRA]BBB (Stable) reaffirmed
Cash Credit/WCDL	114.25 (from 110.25)	[ICRA]BBB (Stable)/[ICRA]A3+ reaffirmed
Non fund based facilities	64.50 (from 57.50)	[ICRA] A3+ reaffirmed
Fund based and non fund based limits	97.25 (same as earlier)	[ICRA]BBB (Stable)/[ICRA]A3+ reaffirmed
Unallocated Limits	6.18 (from 5.21)	[ICRA]BBB (Stable) reaffirmed
Total	**384.37 (same as earlier)**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating at [ICRA]BBB (pronounced ICRA triple B) and the short term rating at [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 384.37 crore[1] bank facilities of JBM Auto Limited ('JAL' or 'the company')[2]†. The long term rating has a 'stable' outlook.

Rationale

The rating reaffirmation takes into account the company's stable operating performance during FY2016, despite reporting a decline in revenues from both its major divisions, the sheet metal component manufacturing division (SMD) as well as tool room division (TRD). The moderation in operating revenues was largely due to weak performance of its key customer, Honda Cars India Limited (HCIL) during the year. Furthermore, with the Original Equipment Manufacturer (OEM) continuing to perform below expectations in the current year as well, the pressure on revenues of JBMA is expected to continue over the near term as well. Nonetheless, the company has a strong tooling order book, with orders gained from other clients, which is likely to support its revenues during the current year. Furthermore, the company also commercialised operations at its bus division during the first quarter of the current year, which would add incremental revenues and aid revenue growth during the fiscal.

The ratings continue to factor in the strong reputation of JBMA , being part of the US$ 1.35 billion JBM Group, and the financial support extended by the Group companies over recent years. The rating decision also continue to be supported by the strong customer base of the company, supplying to almost all major OEMs in the country and its presence across multiple automotive segments, which reduces its vulnerability to the cyclicality in the automotive industry. The ratings also continue to be supported by the company's presence in manufacturing of both sheet metal components as well as tools, which in addition to increasing business prospects with clients, is also margin accretive, by virtue of tooling sales commanding higher margins. Additionally, the company has also forayed into vehicle manufacturing through its bus division where it manufactures low-floor CNG buses under the brand of 'CITYLIFE'.

However, although the foray into bus manufacturing offers diversification benefits to the revenues of JBMA, it remains a cause for concern that scale-up of operations in the bus division has been slower than expected, which has been impacting the profitability of the company on account of fixed overheads from the bus manufacturing facilities. Furthermore, revenue visibility in the division remains low due to lack of further confirmed orders and high competitive intensity in the bus manufacturing segment given the presence of multiple established incumbent players. Given the fact that business prospects and ability to generate adequate returns from the investments made in the division hinges on the ability of the company to gain new orders here, business expansion and scale-up in the bus division remains critical for the company.

The rating decision remains constrained on account of the high revenue volatility of JBMA due to the sporadic nature of tooling revenues, which impacts operating cash flows of the company. The ratings also factor in the company's leveraged capital structure, with recent capacity expansions in the company being funded majorly

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[1] 100 Lakh = 1 Crore = 10 million

[2]† For detailed rating scales and definitions refer the ICRA website www.icra.in or other ICRA publications

through debt. The company's debt repayment obligations over the medium term are sizeable as compared to the cash accruals at a standalone level; any sharp deterioration in off-take from key customers or moderation in order book could lead to difficulty in meeting its debt obligations; however, being part of the JBM Group, refinancing risks remain low for the company. ICRA also notes the increase in inventory and creditor days of the company during FY2016, primarily on account of delay in commercialization of the bus division.

ICRA also takes note of the company's foray into the electric bus manufacturing segment, through a joint venture with Solaris, which would entail a sizeable investment of Rs. 300 crore in a phased manner over the medium term. ICRA would continue to monitor the nature of funding mix adopted for the same, and its impact on the company's credit profile. Going forward, ICRA would continue to monitor key developments with respect to JBMA's new joint venture and scale up at its bus division. Any large investments in the JV and the funding mix adopted for the same is likely to have a significant impact on the financial risk profile of the company. Further, timely scale up in operations at the bus division in a profitable manner would remain critical to supporting both the top-line as well as bottom-line of the company. Hence, these would be key rating sensitivities and would be monitored going forward.

Key rating drivers

Credit Strengths

- Part of the JBM Group of companies, which has diverse business interests across different segments of the automotive industry; continued support demonstrated by group companies in the form of subscription to JBMA's preference shares
- Strong synergies on account of being present in both the sheet metal as well as higher margin tooling room division, which helps the company garner more business from customers and also supports its profitability
- Presence across various segments of the automotive industry such as passenger vehicles, three-wheelers, two-wheelers, tractors and commercial vehicles protects its revenues to some extent from cyclicality in the industry
- Strong customer base, supplying to almost all major domestic players across automotive segments; efforts to continually gain new business from existing as well as new customers augur well for revenue growth going forward
- Commercialization of bus division during the current fiscal and order book in hand likely to keep revenue growth healthy over the near term
- Business expansion through joint ventures with Indian and foreign companies; operations of these companies continue to be stable and self-sustaining without the requirement of funding support from JBMA, and has supported the overall consolidated financial risk profile of JBMA

Credit Weakness

- Significant variability in JBMA's operating revenues and profitability on account of non-recurring nature of tooling segment sales which limits the revenue visibility of the company
- Major proportion of revenues derived from low-margin sheet metal component manufacturing, which constrains JBMA's overall margins
- Leveraged capital structure with significant quantum of debt availed for recent investments in new plants (Indore and Kosi); sizeable repayment obligations over the near term in relation to accruals from operations
- New JV formed with Solaris for manufacturing electric buses which would require sizeable investment of Rs. 300 crore in a phased manner over the medium term; low acceptance of electric vehicles in India currently and weak infrastructure for the same limits the revenue growth prospects from this JV in the near term
- Delays encountered with execution of bus order received from Noida Metro Rail Corporation and absence of any new confirmed orders limits revenue visibility for the bus division; ongoing high competition in bus manufacturing from incumbents and overheads from the manufacturing facility likely to keep profitability of the division constrained over the medium term

Sensitivities

- Debt-funded investments or capital expenditure required over the medium term which would deteriorate its financial risk profile
- Ability to scale up operations at its bus division in a profitable manner

Description of key rating drivers highlighted above:

JBMA is part of the US$ 1.35 billion JBM Group, which has long-standing experience in the auto component business with multiple companies catering to a wide range of OEMs in the country. The flagship companies of the Group are JBML, Jay Bharat Maruti Limited (JBML, rated [ICRA]AA- (Stable)/ A1+) and Neel Metal Products Limited (NMPL, rated [ICRA]A+ (Stable)/A1+). In addition to the operational linkages within the Group, there has also been financial support extended by Group companies in the form of subscription to redeemable preference shares of JAL by NMPL, which has supported the company's credit profile and kept its interest burden under check.

The operations of the company are currently in two major divisions – manufacturing of sheet metal components (SMD) and manufacturing of tools and dies (TRD). Having presence in both SMD and TRD remain a positive for the company, as it improves its business prospects with clients, in addition to supporting its operating profit margins as tooling sales command higher margins. Additionally, the company has also forayed into vehicle manufacturing through its bus division where it manufactures low-floor CNG buses. The bus division of the company was commercialized recently, with supplies for its first order commencing during Q1 FY2017, supplying around 50 buses to Noida Metro Rail Corporation. Although revenue growth is likely to be healthy during the current fiscal on the back of execution of the existing order in hand for the bus division, revenue visibility over the medium term for the division remains low currently as the company is yet to gain any further confirmed orders in the division.

JBMA has presence across various automotive segments like passenger vehicles, three-wheelers, two-wheelers, tractors and commercial vehicles and supplies to almost all major OEMs like HCIL, Mahindra & Mahindra Limited (M&M), VE Commercial Vehicles (VECV) and Tata Motors Limited (TML). However, the company has significant dependence on HCIL for its revenues, and weak performance of the OEM in the domestic market during the previous fiscal has resulted in moderation of revenues for the company during FY2016.

JBMA also has invested in a few subsidiaries and joint ventures, primarily engaged in the same line of business. The joint ventures include Indo Toolings Private Limited (ITPL) and JBM MA Automotive Private Limited (JBMMA, rated [ICRA]BBB (Stable)/A3+); the latter is engaged in the manufacture and supply of sheet metal components to OEMs in and around Pune. The subsidiaries include JBM Auto Systems Private Limited (JBMAS) and JBM Ogihara Automotive India Limited (JOAI, rated [ICRA]BBB- (Stable)/A3) – both the companies are engaged in the manufacture of sheet metal components, the latter to Toyota Kirloskar Motors Limited and the former to Ford India, Renault-Nissan, Honda Motorcycles and Scooters India Limited etc. These joint ventures and subsidiaries continue to report steady scale up in revenues and healthy operating profitability, and have been supporting the overall consolidated financial risk profile of JBMA.

During FY2017, JBMA has also entered into a joint venture agreement with Solaris (Poland) for the manufacturing of electric and hybrid buses in India. Although the company has indicated that the new JV would require an investment of about Rs. 300 crore, the funding and timeline for the same is yet to be finalized by the company, and would be in line with orders received for the same. Contribution of the JV to revenues and profitability of the consolidated entity is likely to be limited over the medium term, given the current low adoption of electric vehicles in India. Government subsidy programs, infrastructure for charging electric vehicles in the country, viability of fleet operators and overall benefits of electric buses as compared to conventional buses would remain critical factors that would determine the viability of electric buses within the country; hence, ICRA would continue to monitor developments in this segment and their likely impact on business prospects for the JV going forward.

Tooling sales generally entail significantly higher margins as compared to the highly competitive low value-add sheet metal component division. However, with tooling orders received from clients generally being one-time in nature, the company's revenues and profitability have exhibited volatility over the years. Although the company has presence in manufacturing and sale of tools and dies as well, the major revenue contributor continues to remain the low-margin SMD, which have been constraining JBMA's margins over the years.

The company has undertaken sizeable amount of capital expenditure over the past two fiscals, primarily with respect to setting up its plant in Indore and its bus manufacturing facilities in Kosi and Ballabhgarh. The capital expenditure has been funded majorly through external borrowings, resulting in a leveraged capital structure and sizeable debt obligations for the company.

Analytical approach: For arriving at the ratings, ICRA has primarily taken into account the operational profile and financials of the standalone entity. However, ICRA also takes into consideration the performance of the subsidiaries and joint ventures of JAL and any investments or funding support required in these entities.

Links to applicable Criteria

- Corporate Credit Rating –A Note on Methodology
- Rating Methodology for Auto Component Manufacturers

About the Company:

JBM Auto Limited ('JBMA' or 'the company') was incorporated in 1990 to manufacture tools, dies and moulds for players in the automobile industry. Subsequently in 1993, the company entered the business of manufacturing sheet metal components for Original Equipment Manufacturers (OEMs) to benefit from the growing demand from the automotive sector. Further in 2006, JBMA started its Special Purpose Vehicle (SPV) division which was engaged in the fabrication and assembly of bodies of heavy vehicles. JBMA also commenced operations at its bus manufacturing division during FY2015.

JBMA is part of the US$ 1.35 billion JBM Group, which comprises other auto component manufacturing companies like Jay Bharat Maruti Limited and Neel Metal Products Limited. JBMA has also invested in two joint ventures (JVs) and subsidiaries, which are engaged in similar line of business as JAL, but catering to different OEMs in different geographies. The two JVs include JBM MA Automotive Private Limited and Indo Toolings Private Limited (ITPL). The two subsidiaries include JBM Auto Systems Private Limited (JASPL) and JBM Ogihara Automotive India Limited.

As per audited standalone financials, JBMA reported a PAT of Rs. 24.6 Crore on an Operating Income of Rs. 573.0 Crore in FY2016, as against an operating income of Rs. 604.6 Crore and PAT of Rs. 33.6 Crore during FY2015. As per audited consolidated financials, JAL reported a PAT of Rs. 62.9 Crore on an Operating Income of Rs. 1523.4 Crore in FY2016, as against an operating income of Rs. 1560.7 Crore and PAT of Rs. 92.6 Crore during FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	December 2015	November 2014	August 2013
1	Term Loan	Long Term	102.19	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Cash Credit/WCDL	Long Term/ Short Term	114.25	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3
3	Non-fund based limits	Short Term	64.50	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Fund based and non-fund based limits	Long Term/ Short Term	97.25	[ICRA] BBB (Stable)/ [ICRA]A3+	[ICRA] BBB (Stable)/ [ICRA]A3+	[ICRA] BBB (Stable)/ [ICRA]A3+	[ICRA] BBB- (Stable)/ [ICRA]A3
5	Unallocated Limits	Long Term	6.18	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)

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 www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit/WCDL	-	-	-	114.25	[ICRA]BBB (Stable)/ [ICRA]A3+
Term Loan 1	-	Base Rate Linked Rate	FY2017	17.19	[ICRA]BBB (Stable)
Term Loan 2	-	Base Rate Linked Rate	FY2017	2.42	[ICRA]BBB (Stable)
Term Loan 3	-	Base Rate Linked Rate	FY2019	16.98	[ICRA]BBB (Stable)
Term Loan 4	-	Base Rate Linked Rate	FY2020	21.66	[ICRA]BBB (Stable)
Term Loan 5	FY2015	Base Rate Linked Rate	FY2020	18.94	[ICRA]BBB (Stable)
Term Loan 6	FY2016	Base Rate Linked Rate	FY2021	25.00	[ICRA]BBB (Stable)
Non fund based limits	-	-	-	64.50	[ICRA]A3+
Fund based and non-fund based limits	-	-	-	97.25	[ICRA]BBB (Stable)/ [ICRA] A3+
Unallocated Amount	-	-	-	6.18	[ICRA]BBB (Stable)

Source: JBM Auto Limited

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About ICRA Limited:
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