Jupiter Wagons Limited

August 10, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Corporate Loan	5.00	[ICRA]BBB+@, placed on rating watch with negative implications
Fund Based – Cash Credit	30.00	[ICRA]BBB+@, placed on rating watch with negative implications
Non-Fund Based – Letter of Credit	30.00	[ICRA]A2@, placed on rating watch with negative implications
Non-Fund Based – Bank Guarantee	54.00	[ICRA]A2@, placed on rating watch with negative implications
Non-Fund Based – Derivative/ FC/ CEL	1.00	[ICRA]A2@, placed on rating watch with negative implications
Total	**120.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has placed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 35.00-crore[1] fund-based limits of Jupiter Wagons Limited (JWL) on rating watch with negative implications[2]. ICRA has also placed the short-term rating of [ICRA]A2 (pronounced ICRA A two) assigned to the Rs. 85.00-crore non-fund based limits of JWL on rating watch with negative implications.

Rationale

ICRA has placed the ratings assigned to the bank limits of JWL on Rating Watch with Negative Implications subsequent to JWL's proposed plan to acquire a majority stake in a company, currently under NCLT, as part of a proposed Resolution Plan (RP). As per the proposed RP, JWL would also extend a corporate guarantee for the fresh and residual debts of the company. In ICRA's view, this investment by JWL may adversely impact the consolidated financial profile of JWL and the company (the group). ICRA will continue to monitor developments in this regard and would evaluate the impact of JWL's investment in the company on its business risk profile post finalisation and implementation of the proposed RP.

The ratings continue to derive comfort from the established position of JWL in the wagon-manufacturing industry and its healthy financial profile characterised by low gearing and comfortable coverage indicators. However, the same may weaken if the proposed RP is implemented. The ratings also favourably factor in the comfortable order-book position which provides revenue visibility over the medium term and the high barriers to entry in the wagon manufacturing industry, which limits competition.

The ratings, however, continue to be constrained by JWL's high reliance on Indian Railways to secure business and the tender-based contract awarding system followed by IR, which provides limited scope for improvement in margins.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Established track record of operations – JWL is an established player the wagon-manufacturing industry and the promoters possess over ten years of experience in business. Further, high entry barriers in this segment limits competition.

Healthy financial profile – The capital structure of JWL has remained conservative as witnessed by a gearing of 0.29 times as on March 31, 2018 (provisional). Low level of gearing, coupled with modest profitability, has resulted in a comfortable level of coverage indicators. However, going forward, the group's capital structure and debt coverage indicators may weaken if the proposed RP is implemented.

Comfortable order-book position – JWL had an outstanding order book of ~2000 wagons as on March, 2018 which is to be delivered by December, 2018. Wagon demand from the IR is expected to remain sizeable in the near to medium term and the management expects to bag a substantial order from IR which would strengthen the company's order book and provides revenue visibility.

Credit challenges

High customer-concentration risk – JWL places extensive reliance on IR to procure business which exposes JWL to high customer-concentration risk.

Limited scope for improvement in margins due to tender-based nature of contracts – Tender-based nature of railway orders limits scope for any significant improvement in profit margins; however, inbuilt price-variation clauses in railway contracts protects margins from input cost hike to a large extent.

Proposed investment plans – JWL is presently planning to acquire a majority stake in a company, currently under NCLT, as part of a proposed Resolution Plan (RP). As per the proposed RP, JWL would also extend a corporate guarantee for the fresh and residual debts of the company. In ICRA's view, this investment by JWL may adversely impact the consolidated financial profile of the group.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:

Incorporated in 2006, Jupiter Wagons Limited (JWL) is a part of the Jupiter Group. The company commenced operations in November 2008 and is managed by Mr. Vivek Lohia and Mr. Vikash Lohia. JWL has been engaged in manufacturing of various kinds of wagons, primarily for the transportation of goods for Indian Railways (IR). The manufacturing unit of the company is situated at Hooghly, West Bengal.

Erstwhile group company, Jupiter Alloys & Steel (India) Limited (JASIL) which was mainly involved in manufacture of critical safety casting items used in the railway rolling stock and coaches and in the railway track, viz. cast-steel bogies, high-tensile couplers, draft gears, cast manganese steel castings, CMS crossings etc. has merged with JWL with effect from April 1, 2016. The scheme of merger was sanctioned by NCLT, Kolkata Bench on February 8, 2018.

Key financial indicators

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	289.39	184.94
PAT (Rs. crore)	3.36	0.44
OPBDIT/ OI (%)	11.47%	15.66%
RoCE (%)	9.42%	3.76%
Total Debt/ TNW (times)	0.31	0.29
Total Debt/ OPBDIT (times)	1.66	1.92
Interest Coverage (times)	3.94	3.29

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				March 31, 2017	August 2018	-	March 2017	-
1.	Corporate Loan	Long Term	5.00	11.31	[ICRA]BBB+@	-	[ICRA]BBB+ (Stable)	-
2.	Cash Credit	Long Term	30.00	24.33	[ICRA]BBB+@	-	[ICRA]BBB+ (Stable)	-
3.	Letter of Credit	Short Term	30.00	-	[ICRA]A2@	-	[ICRA]A2	-
4.	Bank Guarantee	Short Term	54.00	-	[ICRA]A2@	-	[ICRA]A2	-
5.	Derivative/ FC/ CEL	Short Term	1.00	-	[ICRA]A2@	-	[ICRA]A2	-

@ placed on rating watch with negative implications

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Corporate Loan	July, 2014	12.95%	March, 2019	5.00	[ICRA]BBB+@
-	Cash Credit	-	-	-	30.00	[ICRA]BBB+@
-	Letter of Credit	-	-	-	30.00	[ICRA]A2@
-	Bank Guarantee	-	-	-	54.00	[ICRA]A2@
	Derivative/ FC/ CEL	-	-	-	1.00	[ICRA]A2@

Source: Jupiter Wagons Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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