November 21, 2022

Jupiter Wagons Limited (formerly Commercial Engineers & Body Builders Company Limited): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	20.00	305.00	[ICRA]A+ (Stable); reaffirmed/assigned
Long-term – Fund-based – Term loan	25.00	34.50	[ICRA]A+ (Stable); reaffirmed/assigned
Short-term – Non-fund based	37.00	722.50	[ICRA]A1; reaffirmed/assigned
Short-term – Fund-based – Bill discounting	65.00	0.00	-
Total	**147.00**	**1,062.00**	

**Instrument details are provided in Annexure-I*

Note: Based on merger order dated May 13, 2022, Jupiter Wagons Limited (JWL) has merged with Commercial Engineers and Body Builders Limited (CEBBCO) through a reverse merger and the combined entity is listed on stock exchanges. The name of the company (formerly known as CEBBCO) has been changed to Jupiter Wagons Limited (JWL). Consequently, the bank lines of erstwhile JWL is now transferred to merged entity. ICRA has taken consolidated view of JWL and CEBBCO in the past, and hence the merger was credit neutral.

Rationale

The reaffirmation of ratings for Jupiter Wagons Limited (JWL) continues to factor in its healthy performance in H1 FY2023 and the revenue visibility from its strong order book of Rs. 4,683 crore as on August 15, 2022 translating into an order book to operating income (OB/OI) ratio of 4 times (on FY2022 OI). JWL's revenues are likely to witness strong growth over the next one-two years, which along with the expected improvement in profitability because of operating leverage benefit should result in a substantial improvement in its financial risk profile. Moreover, ramp-up in operations of its joint ventures (JVs), which are into manufacturing components for wagons, will aid margin expansion. The ratings consider JWL's established position in the domestic railway wagon manufacturing, its technical competence and backward integration, having designed key wagon parts in-house.

The above strengths are partially offset by high client concentration risks with orders from the Indian Railways (IR) accounting for a major portion of the combined order book and over 48% of revenue for FY2022. While JWL's scale of operations is expected to witness robust improvement in the medium term, its ability to garner regular orders from IR as well as private sector clients and maintain its scale of operations as well as profitability remains to be seen over the medium to long term. The ratings favourably factor in the 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. The wagon manufacturing industry 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.

The ratings factor in JWL's investment plans in the JVs, which are into manufacturing 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. Further, ICRA notes that JWL had submitted a resolution plan for Stone India Limited (SIL), and the same has been approved by Committee of Creditors of SIL and is subject to requisite customary approvals. JWL expects to fund this through its available liquidity. ICRA will evaluate the impact of the same on JWL's credit profile once clarity emerges on this resolution plan. Further, the extent of returns, both operational and financial, as well as the funding pattern of the investments/acquisition would have an impact on its overall risk profile going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the strong order book position and improvement in profitability are likely to support its debt protection metrics.

Key rating drivers and their description

Credit strengths

Improved scale of operations; favourable outlook for wagon orders from IR – JWL's OI witnessed a CAGR of 24.45% during the last five years from FY2017 to FY2022, supported by healthy order inflow from the IR and execution of the same. Also, steady order inflows from the private sector helps in diversifying its revenue base and provides a higher margin. These factors resulted in healthy order inflows and supported the overall order book, which stood at Rs. 4,683 crore as on August 15, 2022 translating into OB/OI ratio of 4 times.

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 had registered interest coverage of 6.3 times and TOL/TNW of 0.5 times as on March 31, 2022, which is expected to improve further in FY2023.

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

Credit challenges

High customer concentration risk – IR contributed to over 50% 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 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 payments are based on milestones. The inventory days in the past ranged within 90-120 days. Further, there are sizeable security deposits/balances with the 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 the availability of credit period from suppliers and healthy internal generation, led to low dependence on working capital borrowings. 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.

Environmental and social risks

JWL adheres to various industry standards and is ISO 14001: 2004 Environment Management System certified. At present, it is implementing Industry 4.0, which focuses on sustainable processes.

Liquidity position: Adequate

JWL's liquidity is expected to remain adequate, supported by healthy annual cash flow from operations, limited debt-funded capex commitment going forward, and moderate working capital utilisation levels of ~50%. 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 the ratings if the company is able to sustainably scale up its operations with healthy visibility of order flow over the long term, while improving its profitability and working capital intensity and maintaining healthy liquidity cushion.

Negative factors – The ratings would come under pressure if there is any major slowdown in order inflows or deferment in delivery schedule of orders from the IR, leading to a lower capacity utilisation and a consequent decline in OI and profits. Additionally, any material deterioration in working capital intensity or any adverse impact of the planned acquisition or any large debt-funded capex could also trigger a rating downgrade. Specific credit metrics for the rating downgrade include consolidated interest coverage ratio under 6.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	As on March 31, 2022, the company has two JVs that are enlisted in Annexure II.

About the company

JWL (formerly known as CEBBCO) was 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 has recently forayed into the wagon manufacturing business. JWL has merged with CEBBCO through a reverse merger and the combined entity has been listed on stock exchanges. The company's name (formerly known as CEBBCO) was changed to Jupiter Wagons Limited (JWL) w.e.f. May 25, 2022.

JWL has a capacity to manufacture ~6,500 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. It 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	FY2021	FY2022	H1 FY2023^
Operating income	995.8	1178.4	712.1
PAT	53.5	50.0	38.2
OPBDIT/OI	10.7%	9.7%	11.3%
PAT/OI	5.4%	4.2%	5.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.8
Total debt/OPBDIT (times)	1.3	1.2	1.5
Interest coverage (times)	5.0	6.3	6.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; ^ - Provisional
Source: Jupiter Wagons Limited, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021			Date & rating in FY2020		
					Nov 21, 2022	Oct 07, 2022	Mar 31, 2022	Jan 27, 2021	Jan 4, 2021	Nov 23, 2020	Feb 20, 2020	Nov 7, 2019	
1	Cash credit	Long term	305.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (CE)&	[ICRA]BBB - (CE) (Stable)	[ICRA]BBB - (CE) (Stable)	
2	Term loan – I	Long term	18.0	18.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (CE)&	[ICRA]BBB - (CE) (Stable)	[ICRA]BBB - (CE) (Stable)	
3	Term loan – II	Long term	16.5	16.1	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BB-&	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	
4	Non-fund based	Short Term	722.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A3(CE)&	[ICRA]A3 (CE)	[ICRA]A3 (CE)	
5	Fund-based	Short Term	-	-	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A4&	[ICRA]A4	[ICRA]A4	

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]A+(Stable)
NA	Fund-based – Term loan-I	FY2021	8.80%	FY2027	18.00	[ICRA]A+(Stable)
NA	Fund-based – Term loan-II	FY2021	9.50%	FY2027	16.50	[ICRA]A+(Stable)
NA	Non-fund based	NA	NA	NA	722.50	[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	-	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.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Vaibhav Jain
+91 124 4545 868
vaibhav.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches