JBM Auto Limited

March 09, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Action
Term Loan	102.19	[ICRA]BBB &; ratings placed on rating watch with developing implications
Cash Credit/WCDL	114.25	[ICRA]BBB &/ [ICRA]A3+ &; ratings placed on rating watch with developing implications
Non Fund Based Facilities	64.50	[ICRA]A3+ &; ratings placed on rating watch with developing implications
Fund Based & Non Fund Based Limits	97.25	[ICRA]BBB &/ [ICRA]A3+ &; ratings placed on rating watch with developing implications
Fund Based & Non Fund Based Sub-Limits*	(87.25)	[ICRA]BBB &/ [ICRA]A3+ &; ratings placed on rating watch with developing implications
Unallocated Limits	6.18	[ICRA]BBB &; ratings placed on rating watch with developing implications
Total	384.37	

&On Rating Watch with Developing Implications
*Sub-limits of other facilities

Material Event

JBM Auto Limited (JBMA) announced to the stock exchange on March 1, 2018, that its Board of Directors have approved the proposal to amalgamate two of its subsidiaries i.e. JBM MA Automotive Private Limited (JBM MA, rated [ICRA]BBB (Stable)/A3+) and JBM Auto Systems Private Limited (JBMAS) with itself.

Impact of the Material Event

Accordingly, ICRA has placed the ratings outstanding on the credit facilities of JBMA on rating watch with developing implications following the proposed restructuring exercise within the Group, with JBM MA and JBMAS proposed to be amalgamated with JBM Auto Limited. The amalgamation is expected to help realise operational and financial synergies between the three companies. All the three entities are engaged in the manufacture and supply of automotive sheet metal components to various Original Equipment Manufacturers (OEMs) in India. ICRA expects the merged entity to have a stronger business profile with a well-diversified customer and geographic revenue profile.

Currently JBMA holds 50% stake in JBM MA (with remaining 50% held by Neel Metal Products Limited (also part of the JBM Group, rated [ICRA]A+(Stable)/A1+)) and 73.89% in JBMAS (with remaining held by JBM Group promoters). The amalgamation would be carried out through a share-swap arrangement with no cash outflow from JBMA. Post-amalgamation, the promoter share-holding in JBMA would increase from 61.96% (as on December 31, 2017) to 67.19%.

Although the proposal for amalgamation has been approved by the Board of Directors, the same would be concluded after requisite approvals are in place. During this period, ICRA would continue to monitor developments with respect to the restructuring exercise in the Group and take rating actions, if required, based on the developments.

Outlook: Rating Watch with Developing Implications

The ratings have been placed on rating watch with developing implications considering the proposed amalgamation scheme between JBM Auto Systems Private Limited and JBM MA with JBM Auto Limited, which recently got approved by the Board of Directors of the company. Developments with respect to the same and its impact on the credit profile of the Group would continue to be monitored and would have an implication on the ratings going forward.

Key rating drivers

Credit strengths

Well-diversified customer portfolio, supplying sheet metal components to almost all major domestic OEMs – JBMA benefits from a well-diversified customer portfolio, with limited dependence on a single customer for revenues. The largest customer, Honda Cars India Limited (HCIL) only accounted for 25% of total revenues in FY2017.

Diversified business profile with presence across automobile segment – With the wide variety of OEMs that JBMA caters to, it has presence across various segments in the automotive industry including passenger vehicles, commercial vehicles, three-wheelers, tractors and two-wheelers, thereby protecting its revenues from demand downturns in a particular segment.

Proposal to merge JBM MA, JBMAS and JBMA would result in a larger entity with a stronger business profile and improved credit metrics – With the three entities being merged operating in the same line of business, but catering to different OEMs in different geographies, there would be significant operational synergies to be realised with the amalgamation. The merged entity would have a stronger business and financial risk profile with diversified customer-base and stronger credit metrics.

Operations of subsidiaries and JVs continue to be stable and self-sustaining without requirement of funding support from JBMA and has supported the overall consolidated financial risk profile - Except for JBM Solaris, which would require some investments with respect to R&D in the entity, there is not expected to be any material funding outflow from JBMA towards supporting its subsidiaries and JVs over the medium term, as these are self-sustaining in nature.

Being part of the JBM Group of companies lends financial flexibility - JBMA benefits from being part of the US$ 1.35 billion JBM Group having diverse business interests across the automotive industry. Group companies like NMPL have extended support in the past in the form of intercorporate deposits and subscription to redeemable preference shares to support JBMA's credit profile.

Improvement in financial risk profile expected with the proposed amalgamation exercise - JBMA's financial risk profile has marginally improved over recent fiscals, with scheduled repayment of term loans and accretions to net worth. Improvement in profitability during FY2017 also supported improvement in debt coverage indicators of the company. This is expected to further improve going forward, especially in light of the proposed restructuring in the Group.

Credit weaknesses

Major proportion of revenues derived from low-margin sheet metal component manufacturing – JBMA has historically remained reliant on the low-margin sheet metal component manufacturing division, which accounts for more than 80% of its overall revenues, thereby constraining the overall profitability metrics. The high-margin tooling room division accounts for only 10-15% of JBMA's overall revenues.

Bus division yet to scale up operations due to delays encountered with execution of bus order in hand - Although JBMA commercialised its bus division two years ago, the operations are yet to scale up on account of limited orders in hand, and delay in execution of the confirmed large order from Noida Metro Rail Corporation. Additionally, absence of any other confirmed orders and high competition from incumbents limits revenue visibility and puts pressure on overall profitability indicators

New JV formed with Solaris for manufacturing electric buses would require sizeable investment of Rs. 300 crore over the medium term - During FY2017, JBMA entered into a JV arrangement with Solaris, Poland to design, develop and manufacture electric buses in India. The JV would require a sizeable investment of Rs. 300 crore over the medium term for R&D and capex in the entity. Additionally, the current weak charging infrastructure in the country and low acceptance of EVs remain a deterrent for business prospects of the JV over the near term.

Significant variability in JBMA's operating revenues and profitability on account of non-recurring nature of tooling segment sales - While the sheet metal component manufacturing division entails PBIT margins of only 5-7%, the tooling room division has PBIT margins in the range of 25-35%. With the non-recurring nature of tooling revenues, the profitability of JBMA also tends to fluctuate resulting in volatile profit margins and return indicators.

The previous detailed rating rationale is available on the following link: Click here

Company Profile

JBMA is part of the US$ 1.35 billion JBM Group of companies. Within the JBM Group, Jay Bharat Maruti Limited (JBML, rated [ICRA]AA-(Stable)/A1+), Neel Metal Products Limited (NMPL, rated [ICRA]A+(Stable)/A1+) and JBM Auto Limited are the largest in terms of turnover.

JBMA, a public limited company, was incorporated in 1990 mainly to manufacture tools, dies and moulds for the automobile industry, from its Faridabad facility. Subsequently in 1993, the company entered the sheet metal components manufacturing business for OEMs other than Maruti Suzuki India Limited (MSIL) to benefit from the growing demand from the automotive sector. Further in 2006, JBMA started its Special Purpose Vehicle division engaged in the fabrication and assembly of bodies of heavy vehicles. Business in this division is negligible currently. JBMA also commenced operations at its bus manufacturing division during FY2015.

JBMA has also invested in two joint ventures (JVs) and subsidiaries, which are engaged in similar line of business as JBMA, but catering to different OEMs in different geographies. The two JVs include JBM MA Automotive Private Limited (JBM MA, rated [ICRA]BBB(Stable)/A3+) and Indo Toolings Private Limited (ITPL). The two subsidiaries include JBM Auto Systems Private Limited (JBMAS, rated [CRISIL]A-(Stable)/A2) and JBM Ogihara Automotive India Limited (JOAIL, rated [ICRA]BBB-(Stable)/A3). JAL also incorporated JBM Solaris in FY2017, for the purpose of design, development, manufacturing and marketing of electric buses in India.

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Sruthi Thomas
+91 124 4545 822
sruthi.thomas@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
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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