JBM Auto Limited

June 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	102.19	55.31	[ICRA]BBB &;Reaffirmed
Cash Credit/WCDL	114.25	114.75	[ICRA]BBB &/ [ICRA]A3+&; Reaffirmed
Non Fund based limits	64.50	54.50	[ICRA]A3+ &; Reaffirmed
Fund based & non fund based limits	97.25	199.25	[ICRA]BBB &/ [ICRA]A3+&; Reaffirmed
Unallocated	6.18	0.56	[ICRA]BBB &; Reaffirmed
Fund Based/Non-Fund Based sub-limits^	(87.25)	(174.25)	[ICRA]BBB &/ [ICRA]A3+&; Reaffirmed
Total	**384.37**	**424.37**	

*Instrument details are provided in Annexure-1
^Sub-limits of other working capital facilities
&On Rating Watch with Developing Implications

Rating action

ICRA has reaffirmed the long -term rating of [ICRA]BBB (pronounced ICRA triple B) and the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 424.37 crore[1] bank facilities (enhanced from Rs. 384.37 crore) of JBM Auto Limited (JBMA)[2]. The ratings continue to be on rating watch with developing implications considering the proposed merger process within the Group, with JBM MA Automotive Private Limited (JBMMA, rated [ICRA]BBB &/A3+&) and JBM Auto Systems Private Limited (JBMAS) proposed to be amalgamated with JBMA.

Rationale

The rating reaffirmation takes into account the company's established presence in the domestic automotive market as a leading sheet metal component manufacturer and supplier of tools and dies to automobile OEMs, with presence across product segments in the automotive sheet metal component space, and its well-established and gradually expanding customer base with presence across automotive segments. By virtue of its presence with multiple Original Equipment Manufacturers (OEMs) like Honda Cars India Limited (HCIL), Volvo Eicher Commercial Vehicles (VECV), Tata Motors Limited (TML), Mahindra & Mahindra Limited (M&M) etc., its revenues have remained protected over the years in spite of lower off-take from certain OEMs (like HCIL in the recent past) and demand downturns in particular automotive segments.

JBMA also caters to additional OEMs and geographies through its subsidiaries and joint ventures, including Toyota Kirloskar Motors Limited (TKML) through JBM Ogihara Automotive India Limited (JOAIL, 51% owned by JBMA), OEMs like Fiat India, TML and M&M situated in Pune through JBMMA (50% owned by JBMA) and OEMs in South and West India like Ford India, Honda Motorcycles and Scooter India Limited, Eicher Motors Limited through JBMAS (74% owned by JBMA). With JBMMA

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[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*

and JBMAS proposed to be merged with JBMA over the near term, there would be significant operational synergies to be realised with the amalgamation.

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 the years. Group companies like Neel Metal Products Limited (NMPL, rated [ICRA]A(Stable)/A1) have supported JBMA by subscribing to its redeemable preference shares and extended intercorporate loans over the years.

Nonetheless, the ratings continue to be constrained by the company's limited diversification, with high dependence on sheet metal division for revenues, the current loss-making status of its bus division and moderate credit metrics owing to continued reliance on external borrowings for meeting funding requirements. Although JBMA has diversified into bus manufacturing in FY2015 through set up of its bus division where it manufactures low-floor CNG buses under the brand of 'CITYLIFE', the scale-up of operations has been significantly below expectations due to delays in off-take from the customer for the confirmed order in hand, which has been impacting the profitability of the company on account of fixed overheads from the bus manufacturing facilities. 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.

The ratings also factor in the company's leveraged capital structure, with recent capacity expansions in the company being funded majorly through debt. JBMA has regularly availed new term loans and incremental working capital facilities for meeting its capital expenditure and short-term funding requirements, keeping its reliance on external borrowings consistently high. Consequently, its credit metrics continue to remain at moderate levels, with Total Debt/OPBITDA and TOL/TNW remaining in the range of 2.5-4.5x over the years. However, with the proposed merger in the pipeline, the financial risk profile and credit metrics of JBMA are expected to improve going forward, with JBMMA and JBMAS having stronger credit metrics than JBMA (Standalone).

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 long term. ICRA would continue to monitor the funding mix adopted for the same, and its impact on the company's credit profile. Furthermore, 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. The developments with respect to the merger would also continue to be monitored, as the proposed amalgamation would have an impact on the credit profile of the Group. Hence, these would be the key rating sensitivities and would be monitored going forward.

Outlook: Rating Watch with Developing Implications

The ratings continue to be on rating watch with developing implications considering the proposed amalgamation scheme between JBMAS and JBMMA with JBM Auto Limited, which has been 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. On a consolidated basis, JBMA caters to multiple OEMs like HCIL, VECV, TML, M&M, Ford, Renault Nissan and HMSI, and the largest customer, Ford, accounts for less than one-fifth of the consolidated revenues.

Presence across various automotive segments protects revenues from volatility in demand in a particular 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 JBMMA, JASPL and JBMA would result in a larger entity with a stronger business risk profile and credit metrics - With the three entities being merged operating in the same line of business, but catering to different OEMs, 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 of JBMA - 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.

Part of the JBM Group of companies, which has diverse business interests across different segments of the automotive industry - 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.

Credit challenges

Major proportion of revenues derived from sheet metal component manufacturing, which is capital-intensive and requires frequent investments in tooling and capacity addition – JBMA derives the major proportion of its revenues (80% of standalone and 94% of consolidated) from the manufacturing of various automotive sheet metal components, a capital intensive business, which requires periodic investments in tooling and capacity addition in order to cater to business gained for new models or parts.

Diversification into bus manufacturing yet to scale up; faces competition from incumbents - Although JBMA commercialised its bus division in FY2015, the operations are yet to scale up on account of delay in off-take from the customer for the confirmed large order in hand. Additionally, high competition from incumbents and limited new orders limit revenue visibility and puts pressure on overall profitability indicators.

New JV for manufacturing electric buses would require sizeable investment over the medium term; low acceptance of electric vehicles and weak infrastructure for the same remains a deterrent - 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 long 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.

Limited diversification with high dependence on sheet metal division for revenues – Although JBMA has operations in three divisions and ventured into bus manufacturing as part of its de-risking and diversification initiatives, the major proportion of revenues (~80%) continue to be derived from sheet metal component manufacturing.

Continued dependence on external borrowings for capex and working capital requirements keeps credit metrics at moderate levels – JBMA's credit metrics have remained moderate over the years, with continued dependence on term loans for funding capital expenditure requirements, and external short-term borrowings for meeting working capital requirements. Consequently, indicators like Total Debt/OPBITDA and TOL/TNW have remained in the range of 2.5-4.5x over the years.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Auto Component Manufacturers

About the company

Part of the Delhi-NCR based JBM group, JBM Auto Limited is one the leading suppliers of sheet metal-based auto components to OEMs in India. The company manufactures and supplies critical sheet metal components for chassis and suspension systems such as axles, twist beams, lower control arms, exhaust systems, fuel tanks and cowl assemblies for OEMs such as HCIL, VECV, M&M, TML etc. The company also manufactures outer body panels and BIW parts. Besides, standalone operations (~40% of turnover), JBMA also services OEMs like Ford, Fiat, TML, M&M, Eicher Motors, HMSI and TKML through two JVs and subsidiaries. As on March 2018, JBMA had 12 manufacturing facilities located in proximity to OEMs in the states of Delhi-NCR, Maharashtra, Madhya Pradesh, Karnataka and Tamil Nadu. The company generates revenues from three key divisions – Components (94%), Toolings (5%) and Buses (1%).

JBMA had started as a public limited company and 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 and is yet to achieve meaningful scale-up.

Over the years, JBMA has set-up two JVs and subsidiaries, which are also engaged in similar line of business as JBMA, but cater to different OEMs in India. The two JVs include JBMMA Automotive Private Limited (JBMMA, rated [ICRA]BBB&[3]/A3+&) and Indo Toolings Private Limited (ITPL). The two subsidiaries include JBM Auto Systems Private Limited (JBMAS) and JBM Ogihara Automotive India Limited (JOAIL, rated [ICRA]BBB-(Stable)/A3). JBMA also incorporated JBM Solaris in FY2017, with the objective to design, develop, manufacture and market electric buses in India.

Key financial indicators – standalone (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	712.7	776.3
PAT (Rs. crore)	39.8	32.1
OPBDIT/OI (%)	12.8%	13.3%
RoCE (%)	17.4%	16.2%
Total Debt/TNW (times)	1.6	1.7
Total Debt/OPBDIT (times)	3.3	3.4
Interest coverage (times)	3.0	3.3

[3] & On Rating Watch with Developing Implications

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 March 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 January 2016
1	Term Loan	Long Term	55.31	55.31	[ICRA]BBB &	[ICRA]BBB &	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit/WCDL	Long Term/ Short Term	114.75	NA	[ICRA]BBB &/A3+ &	[ICRA]BBB &/A3+ &	[ICRA]BBB (Stable)/A3 +	[ICRA]BBB (Stable)/A3 +
3	Non Fund based limits	Short Term	54.50	NA	[ICRA]A3+ &	[ICRA]A3+ &	[ICRA]A3+	[ICRA]A3+
4	Fund based & non fund based limits	Long Term/ Short Term	199.25	NA	[ICRA]BBB &/A3+ &	[ICRA]BBB &/A3+ &	[ICRA]BBB (Stable)/A3 +	[ICRA]BBB (Stable)/A3 +
5	Unallocated	Long Term	0.56	NA	[ICRA]BBB &	[ICRA]BBB &	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
6	Fund Based/Non-Fund Based sub-limits*	Long Term/ Short Term	(174.25)	NA	[ICRA]BBB &/A3+ &	[ICRA]BBB &/A3+ &	[ICRA]BBB (Stable)/A3 +	[ICRA]BBB (Stable)/A3 +

*Sub-limits of other working capital facilities
&On Rating Watch with Developing 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
NA	Cash Credit/WCDL	NA	NA	NA	114.75	[ICRA]BBB &/A3+ &
NA	Non Fund based limits	NA	NA	NA	54.50	[ICRA]A3+ &
NA	Fund based & non fund based limits	NA	NA	NA	199.25	[ICRA]BBB &/A3+ &
NA	Unallocated	NA	NA	NA	0.56	[ICRA]BBB &
NA	Fund Based/Non-Fund Based sub-limits*	NA	NA	NA	(174.25)	[ICRA]BBB &/A3+ &
NA	Term Loan I	FY2015	NA	FY2020	7.81	[ICRA]BBB &
NA	Term Loan II	FY2018	NA	FY2023	25.00	[ICRA]BBB &
NA	Term Loan III	FY2015	NA	FY2020	7.29	[ICRA]BBB &
NA	Term Loan IV	FY2015	NA	FY2020	8.95	[ICRA]BBB &
NA	Term Loan V	FY2015	NA	FY2019	6.26	[ICRA]BBB &

&On Rating with Developing Implications; *Sub-Limit of other working capital facilities

Source: JBM Auto Limited

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