January 04, 2021

Commercial Engineers & Body Builders Company Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+; removed from watch with developing implications and 'Stable' outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – CC	20.00	20.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB- (CE)& and removed from watch with developing implications; Stable outlook assigned
Long Term – Fund Based – TL - 1	23.77	20.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB- (CE)& and removed from watch with developing implications; Stable outlook assigned
Long Term – Fund Based – TL – 2	5.00	5.00	[ICRA]A- (Stable); Upgraded from [ICRA]BB- & and removed from watch with developing implications; Stable outlook assigned
Short Term – Non-fund Based	15.00	15.00	[ICRA]A2+; Upgraded from [ICRA]A3 (CE)& and removed from watch with developing implications
Short Term Fund Based – Bills Discounting	15.00	40.00	[ICRA]A2+; Upgraded from [ICRA]A4& and removed from watch with developing implications
Long Term/Short Term – Unallocated	21.23	0.00	-
Total	**100.00**	**100.00**	

Note: Previously the rating was [ICRA]BBB- (CE)&)/A1 (CE)&/ [ICRA]BB- &/A4&. The (CE) suffix mentioned alongside the rating symbol indicated that the rated instrument/facility was backed by some form of explicit credit enhancement. This rating was specific to the rated instrument/facility, its terms and its structure and did not represent ICRA's opinion on the general credit quality of the entity concerned. Post consolidation of the rating view for Commercial Engineers & Body Builders Company Limited (CEBBCO) with that of its majority shareholder Jupiter Wagons Limited (JWL), the rating for CEBBCO stands at [ICRA]A- (Stable)/A2+.

&- ratings watch with developing implications
**Instrument details are provided in Annexure-1*

Rationale

The upgrade of the ratings of the bank facilities of Commercial Engineers & Body Builders Company Limited (CEBBCO) considers the close operational and financial linkages between the company and its majority shareholder, Jupiter Wagons Limited (JWL). While upgrading the ratings, ICRA has taken a consolidated view of the entities. CEBBCO's ratings were earlier accompanied by the suffix CE (Credit Enhancement), which has now been removed with a change in the rating approach.

The upgraded ratings take into consideration the consolidated entity's established business position in the domestic wagon manufacturing business, its technical competence and backward integration, having designed key wagon parts in-house and its comfortable debt metrics, as indicated by healthy debt coverage indicators and low gearing. While assigning the ratings, ICRA has evaluated the combined financial indicators of CEBBCO and its 45.45% shareholder, JWL, given the operational and financial linkages between the entities. ICRA also notes that a merger of the two companies has been filed and is awaiting regulatory approvals. The ratings draw comfort from JWL's outstanding order book of ~Rs. 1,200 crore, which is over 1.4 times the FY2020 sales and provides revenue-cum-cash flow visibility to the standalone entity. While the financial performance of CEEBCO has been weak in the past, as indicated by its regular losses in business and adverse debt coverage indicators, a healthy order book for wagons worth ~Rs. 160 crore coupled with an increased demand from the commercial vehicle (CV) industry, is likely to result in a turnaround in performance of CEBBCO in FY2021.

The above strengths are partially offset by high client-concentration risks of the combined entity, with orders from the Indian Railways (IR) accounting for the major portion of the combined order book. ICRA notes that sales to the IR contribute over 70% to JWL's revenues and hence, regular wagon orders from the IR are key to stable cash flows of the company. Inadequate order inflow from the IR in the past vis-à-vis its wagon manufacturing capacity had resulted in JWL reporting moderate levels of return on capital employed (RoCE). Nevertheless, an increasing number of private sector wagon orders and a favourable outlook on steady order inflow from the IR, given the focus of the latter on increasing its freight business, mitigate such risks to an extent. While assigning the ratings, ICRA has noted JWL's plans to invest in joint ventures (JVs) over the near to medium term. These investments are mainly aimed towards acquisition of technologies, which are likely to strengthen the operating profile of the company over the long term. The extent of returns, both operational and financial, as well as the funding pattern of the investments would have an impact on the overall risk profile of the company going forward. Over the short to medium term, ability to increase the scale of business of the combined entity while maintaining healthy margin and liquidity would be key rating sensitivities.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that cash flows of the combined entity would remain comfortable relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Comfortable consolidated debt protection – JWL's financial profile is healthy as indicated by its steady cash accruals, healthy debt coverage indicators and a low gearing. ICRA notes that the key financial ratios remain comfortable even after considering CEBCCO's debt, and the liabilities against the same, as part of JWL.

Strong technical capabilities and backward integration – JWL has strong technical capabilities in its 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 an overseas partner. JWL's success in developing this component would improve the overall business profile of the company, going forward.

Healthy order book position – JWL's order book position remains healthy with an outstanding order book of ~1.4 times of FY2020 revenue. The healthy order book position provides revenue visibility.

Diversifying revenue base with healthy private sector wagon orders – JWL along with CEBCCO receives regular orders from the private sector. Such orders diversify the revenue base and provide superior margins compared to orders from the IR.

Favourable outlook for wagon orders from Indian Railways - Demand for wagons from the IR is likely to remain strong given its focus on expanding the freight business. Regular orders from the IR are key to stable cash flows to the company.

Credit challenges

High customer concentration risks – JWL's customer concentration risk is high as more than 70% of the company's revenue is generated from the IR. Nevertheless, regular and increasing orders from the private sector mitigate such risks to an extent.

Weak standalone financial profile of CEBBCO - CEBBCO's standalone financial profile is weak, as indicated by regular losses in business and adverse debt coverage indicators. The company's business is likely to turn around in the current financial year with regular supply to the IR and improving demand scenario from the commercial vehicle industry.

Moderate levels of return on capital employed – JWL historically has reported moderate levels of returns on capital employed (RoCE) because of its moderately high working capital intensive business and inadequate capacity utilisation. The company's ability to sustainably maintain a high capacity utilisation, which in turn would result in an improvement in RoCE, is a key rating sensitivity.

Liquidity position: Adequate

JWL's liquidity is adequate with healthy annual cash flow from operations of nearly Rs. 50 crore, no major capex commitment for FY2021 and moderate working capital utilisation levels of less than 50%. The company has prepaid a significant portion of its term loan in FY2021 through an equity infusion under Foreign Direct Investment (FDI). Going forward, the total debt commitment stands reduced. Overall, ICRA expects JWL to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient surplus

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if the company is able to sustainably scale up its operations while maintaining profitability at healthy levels. A turnaround in the business of CEBBCO, leading to a consolidated RoCE of more than 16%, would be a specific trigger for a rating upgrade.

Negative triggers – The ratings would come under pressure if a slowdown in order inflows lead to a lower capacity utilisation and a consequent fall in operating income and profits. A specific trigger for a rating action would be consolidated interest cover remaining under 4.0 times on a sustained basis. Any debt-funded capacity expansion/business acquisition could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	While assigning the ratings, ICRA has taken a consolidated view of Commercial Engineers & Body Builders Company Limited and its 45.45% shareholder, Jupiter Wagons Limited, given the close operational and financial linkages between the entities. The ratings are based on the consolidated financial profile of the company. As on March 31, 2020, JWL had one associate and one joint venture, that are enlisted in Annexure 2.

About the company

CEBBCO was established in 1979 by Mr. Kailash Gupta to design and manufacture vehicle bodies for commercial vehicles (CVs). In late 2008, the company diversified into refurbishment of railway wagons as well as manufacturing of components for railway wagons, coaches and locomotives. Further, the company went public in November 2010. It also undertakes steel fabrication job work on an ad-hoc basis. 4 In January 2019, JWL acquired a 45.45% stake in the company. Along with JWL's promoters and Group companies, the Group's total stake in CEBBCO is 60.66%. For CVs the company designs and manufactures bodies for a wide range of CVs namely, tippers, trailers, tankers, load cargo, garbage bin collectors, etc. which eventually cater to a broad spectrum of industries and sectors such as mining, road construction, goods transportation, solid waste management, municipal applications and defence. For railways, it is involved in manufacture of BOXN wagons (open top transporter wagons) and bogie container auto carrier wagon. The company has received G-105 approval from the Research Design and Standards Organisation (RDSO) for manufacturing wagons in July 2019. At present, the company operates through six manufacturing units of which five are located in Madhya Pradesh and one in Jharkhand.

In FY2020, CEBBCO reported a standalone net loss of Rs. 0.1 crore on an operating income of Rs. 125.7 crore compared to a net profit of Rs. 88.7 crore on an operating income of Rs. 215.8 crore in the previous year.

In FY2020, JWL reported a standalone net profit of Rs. 39.4 crore on an operating income of Rs. 812.6 crore compared to a net profit of Rs. 7.3 crore on an operating income of Rs. 544.7 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	215.8	125.7
PAT (Rs. crore)	88.7	-0.1
OPBDIT/OI (%)	5.6%	1.7%
PAT/OI (%)	41.1%	-0.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1
Total Debt/OPBDIT (times)	3.5	23.8
Interest Coverage (times)	0.5	0.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding as on October 1, 2020	Rating		FY2020		FY2019	FY2018
					4-January-2021	23-November-2020	20-February-2020	07-November-2019	-	-
1	Cash Credit	Long Term	20.00	20.00	[ICRA]A- (Stable)	[ICRA]BBB- (CE)&	[ICRA]BBB- (CE) (Stable)	[ICRA]BBB- (CE) (Stable)	-	-
2	Term Loan – I	Long Term	20.00	19.75	[ICRA]A- (Stable)	[ICRA]BBB- (CE)&	[ICRA]BBB- (CE) (Stable)	[ICRA]BBB- (CE) (Stable)	-	-
3	Term Loan - II	Long Term	5.00	5.00	[ICRA]A- (Stable)	[ICRA]BB- (CE)&	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-
4	Non-fund Based	Short Term	15.00	15.00	[ICRA]A2`+	[ICRA]A3&	[ICRA]A3 (CE)	[ICRA]A3 (CE)	-	-
5	Fund-based	Short Term	15.00	40.00	[ICRA]A2+	[ICRA]A4&	[ICRA]A4	[ICRA]A4	-	-
6	Unallocated	Long Term/Short Term	0.00	0.00	-	[ICRA]BB- (CE)&/A4&	[ICRA]BB- (Stable)/A4	[ICRA]BB- (Stable)/A4	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	20.00	[ICRA]A- (Stable)
NA	Term Loan – I	FY2019	NA	FY2026	20.00	[ICRA]A- (Stable)
NA	Term Loan - II	FY2020	NA	FY2026	5.00	[ICRA]A- (Stable)
NA	Non-fund Based	NA	NA	NA	15.00	[ICRA]A2+
NA	Fund-based	NA	NA	NA	40.00	[ICRA]A2+

Source: CEBBCO

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Jupiter Wagons Limited	-	Equity Method
Commercial Engineers & Body Builders Company Limited	45.45%	Equity Method
JWL Dako CZ India Limited	50.00%	Equity Method

Analyst Contacts

K. Ravichandran
+91-44-45364301
ravichandran@icraindia.com

Manish Ballabh
+91-124-4545812
manish.ballabh@icraindia.com

Vipin Jindal
+91-124-4545355
vipin.jindal@icraindia.com

Jayesh Ghosh
+91-124-4545392
jayesh.ghosh@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

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,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999