

May 21, 2021 ^{Revised}

Jay Bharat Maruti Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Cash Credit/WCDL	420.00	580.00	[ICRA]A+(Stable)/[ICRA]A1 reaffirmed; assigned to enhanced amount
Buyer's Credit Facility/Letter of Credit/Bank Guarantee	10.00	10.00	[ICRA]A+(Stable)/[ICRA]A1 reaffirmed
Term Loan	408.12	311.62	[ICRA]A+(Stable) reaffirmed
Unallocated	33.88	0.38	[ICRA]A+(Stable)/[ICRA]A1 reaffirmed
Total BLR facilities	872.0	902.00	
Commercial Paper Programme	75.00	75.00	[ICRA]A1 reaffirmed
Non-Convertible Debenture Programme	150.00	150.00	[ICRA]A+(Stable) reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation for Jay Bharat Maruti Limited (JBML) factors in its well-established position as one of the key suppliers of sheet metal components to Maruti Suzuki India Limited (MSIL), the market leader in the domestic passenger vehicle (PV) market. Over the years, JBML has emerged as a key supplier of sheet metal-based body-in-white (BIW) components, rear axle assemblies and fuel necks to the Original Equipment Manufacturer (OEM) for almost its entire model range.

Despite high competition among sheet metal component manufacturers, JBML benefits from its cost competitive manufacturing capabilities, its steady investments in setting up capacities as well as its extensive track record and favourable ownership structure, with MSIL holding a 29.3% stake as a joint venture (JV) partner in the company. This enables operational support towards facilitating technical tie-ups with Japanese suppliers for design and development of select model-specific components. Although JBML faces high client concentration risk with MSIL accounting for nearly 90% of its revenues, ICRA takes comfort from the established relationship between JBML and MSIL, as well as from the OEM's leadership position in the domestic PV industry with 48% market share in FY2021, which mitigates business risks to a large extent.

Despite JBML's strong business position with MSIL, the company's earnings moderated over the past two years due to— (a) the domestic automotive industry slowdown in FY2020; and (b) the Covid-19 pandemic induced disruptions in FY2021. In the current fiscal too, while growth is expected to be optically better due to the low base, the ongoing second wave of the pandemic has the potential to derail the pace and extent of recovery. Nevertheless, although near-term disruptions are likely to keep the sentiment muted over the immediate future, the company is likely to witness a gradual recovery subsequently as the year progresses and the macroeconomic environment stabilises. This was also visible in FY2021, with both MSIL and JBML reporting faster-than-expected recovery during Q2 to Q4 FY2021, once the lockdown-related restrictions eased, aided by pent-up demand, increased preference for personal mobility and rural optimism. However, the intensity and extent of the second wave of the pandemic, or any subsequent waves, would determine the recovery momentum to a large extent.

Given JBML's strategic importance to MSIL, it set up a greenfield facility in Gujarat in FY2018 to cater to the OEM's new manufacturing facility in the state, all three phases of which have been commercialised. Accordingly, the company incurred sizeable debt-funded capital expenditure (capex) over the past few years to set up the additional capacity. With this additional capacity having come on stream even as industry volumes started to contract, and with the sizeable debt undertaken for the capex, the company's credit metrics and return indicators have weakened in recent years. Going forward as well, with the

ongoing pandemic, along with expectations of only a gradual demand recovery, JBML's return indicators and credit metrics are expected to remain moderate over the near-term.

ICRA notes that the company continues to face sizeable debt repayment obligations over the medium term, by virtue of the debt-funded capex undertaken. Although the company is expected to meet the same from its internal cash flow generation, any inordinate delays in resuming production at its plants due to the pandemic, or higher-than-expected demand moderation can cause temporary cash flow mismatches. Accordingly, the liquidity cushion available from cash balances and available lines of credit, remains critical. In this respect, ICRA notes that the buffer available from unutilised lines of credit of the company has improved over the past year, supported by improved cash flow generation. Additionally, its healthy financial flexibility as one of the flagship companies of the \$2.2-billion JBM Group also offers comfort. Nevertheless, ICRA would continue to monitor the company's liquidity position as a key monitorable. Additionally, JBML's balance sheet remains characterised by asset-liability mismatch (ALM) by virtue of high dependence on short-term sources of funds. Improvement in the ALM position would also remain critical for strengthening its balance sheet and, hence, would also continue to be monitored.

The Stable outlook on the long-term rating reflects ICRA's opinion that JBML will continue to benefit from its strong business position, with MSIL as a key supplier of BIW parts over the long-term, which will help the entity maintain a stable credit profile. Although the pandemic induced disruptions and debt-funded capex undertaken in recent years will exert pressure on JBML's return indicators and credit metrics over the medium term, they are expected to subsequently improve with market revival and scheduled repayment of term debt.

Key rating drivers and their description

Credit strengths

Strong market position in sheet metal-based components; established relationship with MSIL – JBML enjoys a healthy share of business across all major models of MSIL, the largest PV manufacturer in the country with a domestic market share of 48% in FY2021. The company is a major supplier of BIW parts (such as welded sheet metal assemblies) for some of MSIL's key models that are produced at its facilities in Haryana and Gujarat, which provides healthy revenue visibility for the company.

JV partnership of MSIL mitigates business risks and augurs well for business expansion – As JBML is a strategic supplier of key sheet metal components to the OEM, MSIL has participated as a JV partner in the company, holding a 29.3% equity stake in it. In addition to aiding favourable technical collaborations, the ownership arrangement mitigates business risks for JBML and augurs well for gaining new business, going forward as well.

Diversified product portfolio aids in high content per vehicle supplied to OEMs – JBML's product offerings remain well diversified, given its presence across multiple products including BIW components, rear axle assemblies, mufflers and fuel neck assemblies. This enables it to capture a large share of the kit value supplied to OEMs.

Credit challenges

Significant client concentration risk with almost 90% of revenues from MSIL – JBML remains primarily dependent on MSIL for a major share of its revenues, with the OEM driving 88% of its revenues in 9M FY2021. However, the strong relationship enjoyed with the OEM and its unmatched leadership in the domestic market mitigate the business risks to a large extent.

Exposed to demand downturns of the domestic automotive industry – As JBML derives its entire revenues from the domestic PV market, its earnings remain susceptible to downturns in the same. The industry, which had been undergoing a period of sharp demand slowdown in FY2020, was further impacted by the pandemic induced challenges in H1 FY2021. Although sequential recovery has been visible thereafter, the repercussions of the ongoing second wave of the pandemic are likely to impact the recovery prospects in the current fiscal as well.

Balance sheet characterised by high dependence on short-term borrowings; recent capex requirements have kept dependence on external borrowings high – With JBML having been in a debt-funded capacity expansion phase over the past few years, its long-term debt levels have increased to approximately Rs. 342 crore in FY2021 against Rs. 93 crore in FY2016,

resulting in steady increase in leverage as well as weakening of credit metrics. Additionally, the balance sheet is characterised by asset-liability mismatch, on account of dependence on short-term borrowings for meeting some long-term requirements. Overall, debt repayment obligations remain high over upcoming quarters, which in case of any unanticipated pressure on earnings, could expose the company to some refinancing risks. The JBM Group’s strong business position and relationships with bankers, however, provide comfort.

Liquidity position: Adequate

JBML’s liquidity position remains **adequate**, aided by an improvement in cash flow generation, as supplies to MSIL have ramped up over the past couple of quarters. It is further supported by unutilised working capital limits of about Rs. 29 crore (average over 10M FY2021). Although current year repayment obligations remain sizeable at Rs. 97 crore, JBML is expected to meet these from the cash flow generation from operations, and available lines of credit. Furthermore, near-term capex requirements are minimal and restricted to maintenance requirements. Overall, ICRA believes JBML’s financial flexibility and its access to financial markets as the flagship entity of the JBM Group, coupled with its established business position with MSIL, would also support it in raising additional funds, in case of any temporary cash flow mismatches in meeting its obligations.

Rating sensitivities

Positive factors – Healthy growth in revenues, while maintaining profitability indicators such as RoCE above 15%, will be considered favourably for a rating upgrade. Significant improvement in financial risk profile characterised by strengthening of credit metrics, such as Total Debt¹/OPBITDA below 1.5 times on a sustained basis, would also remain a key monitorable for a rating upgrade.

Negative factors – Significant deterioration in earnings due to the second wave of Covid-19 leading to sustained deterioration in the financial risk profile or liquidity profile, or any further sustained material deterioration in the ALM position could lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer.

About the company

Jay Bharat Maruti Limited, a public limited company, was incorporated in 1987 as a JV between the Arya family and MSIL. JBML manufactures sheet metal-based BIW components, rear axle assemblies, fuel neck components and assemblies, besides designing and developing dies and moulds, automotive machines and equipment. The company has four manufacturing facilities, two in Gurgaon (Haryana), and one each in Manesar (Haryana) and Gujarat. The facilities include imported and indigenous press lines, robotic welding lines as well as plating and painting facilities. From starting off with making sheet metal components and assemblies for PVs, JBML has added capabilities to produce exhaust systems, rear axles, torsion beams and fuel filler necks over the years. JBML is listed on the BSE and the NSE, with its Indian promoter family and companies controlling 29.3% equity.

¹ Total debt considered here would include reported debt, supplier’s credit facilities as well as bill discounting facilities that are with recourse to the company, even if these are off balance-sheet facilities.

Key financial indicators (audited)

JBML Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1,657.7	1,499.1
PAT (Rs. crore)	28.0	25.9
OPBDIT/OI (%)	8.6%	9.1%
PAT/OI (%)	1.7%	1.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.0
Total Debt/OPBDIT (times)	3.5	3.6
Interest Coverage (times)	3.8	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Total Debt shown in the table above includes reported debt, supplier's credit facility and bill discounting facilities (except that from DBS Bank, as the same is without recourse to the company); Amount in Rs. crore; All calculations are as per ICRA research

Source: JBML, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
					May 21, 2021	Jun 09, 2020 May 14, 2020	Nov 05, 2019	Jul 25, 2019	May 16, 2019	Mar 29, 2019
1	Cash Credit/WCDL	Long Term/ Short Term	580.00	46.00	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Negative) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
2	Buyer's Credit Facility/Letter of Credit/Bank Guarantee	Long Term/ Short Term	10.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Negative) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
3	Term Loans	Long Term	311.62	311.62	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Unallocated	Long Term/ Short Term	0.38	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Negative) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
5	Commercial Paper Programme	Short Term	75.00	0.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	NCD Programme*	Long Term	150.00	0.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit/WCDL	Simple
Buyer's Credit Facility/Letter of Credit/Bank Guarantee	Simple
Term Loans	Simple
Unallocated*	Simple
Commercial Paper Programme*	Very Simple
NCD Programme*	Simple

* Complexity categorization is as per the latest understanding of ICRA and is subject to change once the issuance terms are finalized

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 analyzing 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, is available on ICRA's website: [Click Here](#)

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	580.00	[ICRA]A+ (Stable)/[ICRA]A1
NA	Buyer's Credit Facility/Letter of Credit/Bank Guarantee	NA	NA	NA	10.00	[ICRA]A+ (Stable)/[ICRA]A1
NA	Term Loan 1	FY2019	NA	FY2025	56.33	[ICRA]A+ (Stable)
NA	Term Loan 2	FY2018	NA	FY2024	27.75	[ICRA]A+ (Stable)
NA	Term Loan 3	FY2015	NA	FY2025	212.64	[ICRA]A+ (Stable)
NA	Term Loan 4	FY2020	NA	FY2025	14.90	[ICRA]A+ (Stable)
NA	Unallocated	NA	NA	NA	0.38	[ICRA]A+ (Stable)/[ICRA]A1
NA	Commercial Paper Programme*	NA	NA	NA	75.00	[ICRA]A1
NA	NCD Programme*	NA	NA	NA	150.00	[ICRA]A+ (Stable)

Source: Company *Not placed by the company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Corrigendum

Document dated May 21, 2021 has been corrected with revision as detailed below:

- a) Key Financial Indicator table on Page 4 has been revised to show ratios that consider Total Debt including bill discounting facilities (with recourse) now as against reported debt (without bill discounting facilities) considered earlier; accordingly, TOL/TNW and Total Debt/OPBITDA ratios have been accordingly revised

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