July 25, 2019

Jay Bharat Maruti Limited: Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit/WCDL	354.50	354.50	[ICRA]AA-(Negative)/[ICRA]A1+; outlook revised to Negative from Stable
Buyer's Credit Facility/Letter of Credit/Bank Guarantee	90.00	90.00	[ICRA]AA-(Negative)/[ICRA]A1+; outlook revised to Negative from Stable
Term Loan	325.62	325.62	[ICRA]AA-(Negative); outlook revised to Negative from Stable
Unallocated	1.88	1.88	[ICRA]AA-(Negative)/[ICRA]A1+; outlook revised to Negative from Stable
Total Bank Line Facilities	**772.0**	**772.0**	
Commercial Paper Programme	75.00	75.00	[ICRA]A1+; outstanding
Non-convertible Debenture Programme	150.00	150.00	[ICRA]AA-(Negative); outlook revised to Negative from Stable

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Negative from Stable on the long-term rating of Jay Bharat Maruti Limited (JBML) factors in the ongoing prolonged and sharp slowdown in the domestic passenger vehicle (PV) industry, which coupled with higher-than-envisaged debt-funded capital expenditure (capex) being undertaken by the company is likely to exert pressure on its credit metrics over the medium term. The domestic PV industry is going through a period of subdued demand sentiment, with monthly domestic wholesale dispatches declining consistently on a YoY basis since July 2018 (except October 2018) and PV OEMs responding through production cuts in order to pare down the inventory at their dealerships. JBML's key customer, Maruti Suzuki India Limited (MSIL), which accounts for more than 90% of its revenues, has also reported a sharp contraction in volumes, cutting down production by 8.7% in Q3 FY2019, 7.6% in Q4 FY2019 and 15.3% in Q1 FY2020. Consequently, auto-ancillaries like JBML have been impacted, with its revenue growth slowing down over the latter half of FY2019 and contracting by 12.5% in Q1 FY2020.

Despite the slowdown in growth, JBML continues to undertake sizeable capex in line with the capacity expansion being undertaken by Suzuki Motor Corporation (SMC), Gujarat. The company has set up a manufacturing facility in Gujarat to cater to SMC's facility and has been undertaking phased capex to expand capacity as per the OEM's plans, aggregating to Rs. 390 crore in the first two phases. While phase two of the plant got commercialised recently in January 2019 (providing an annual capacity of 5 lakh equivalent units) and is yet to scale up to optimal levels, the company is planning for the third phase of capex, which would increase its capacity by an additional 2.5 lakh equivalent units, in FY2020. Though the company has adequate capacity at its existing plants to cater to MSIL's current demand, the close inter-linkage of JBML with MSIL's capacity expansion plans provides it with limited flexibility to defer the capex. With majority of the capacity expansion undertaken by the company being debt-funded, JBML's credit metrics have been weakening, and are likely to further weaken over the near term, considering the slowdown in sales, the sub-optimal utilisation at its new plants, and the continued debt-funded capex. In FY2019, JBML's gearing levels increased to 1.2x (from 1.0x as on March 31, 2018) and Total Debt/OPBDITA increased to 2.7x (from 2.3x in FY2018); these are likely to further increase to 1.2-1.3x and 2.9-3.2x, respectively, in FY2020. ICRA also notes that JBML's borrowing levels at the end of FY2019 at Rs. 469.4 crore were higher than estimated, primarily because of higher-than-anticipated debt-funded capex and increased reliance on working capital borrowings.

Nevertheless, the ratings continue to reflect JBML's strong business position with MSIL, as a key supplier of sheet metal-based body-in-white (BIW) components, rear axle assemblies and fuel necks for many of its models. MSIL is also a joint venture (JV) partner in the company holding a 29.3% stake, highlighting its strategic importance as a key supplier of BIW parts. The ratings also factor in the higher share of business that the OEM has awarded to JBML in Gujarat, on account of which supplies from the new facility entail higher content per vehicle than the existing supplies. This has also supported the company's revenue growth over the last few quarters, despite the weak sales volumes. Within the auto component space, the BIW parts (commonly referred to as sheet metal components) are characterised by high investments in tooling, besides manufacturing units. Accordingly, OEMs tend to maintain exclusivity or high share of business with its vendors in order to rationalise their investments in tooling.

ICRA believes that recovery in the domestic PV industry is likely to be gradual and mainly contingent on a normal monsoon and extent of improvement in the liquidity situation within the financing ecosystem. Accordingly, the industry is expected to grow by a modest 1-3% in FY2020. ICRA would continue to monitor the demand trend in the industry, the ongoing capex undertaken by the company, and the impact of these on its credit profile. A prolonged period of demand downturn, coupled with sizeable debt-funded capex, is likely to exert further pressure on the company's credit metrics and consequently, ratings, especially given its sizeable debt repayments of Rs. 92 crore falling due in the current fiscal. The company's liquidity profile is also characterised by relatively high utilisation (averaging at 92% of the drawing power over the last six months) of the sanctioned working capital facilities. However, this risk is mitigated to an extent by the company's position as the JBM Group's flagship entity and its established track record of securing credit facilities in a timely manner.

Outlook: Negative

ICRA believes that JBML's credit metrics are likely to weaken over the medium term, considering the sizeable debt-funded capex being undertaken during a period of subdued demand. The outlook may be revised to Stable in case of faster-than-expected recovery in the domestic PV industry and pickup in MSIL's sales, which augur well for the company's cash flows. The revision in outlook could also be supported by the company's efforts to reduce leverage through inorganic means, such as equity fund raising.

Key rating drivers

Credit strengths

Strong market position in sheet metal-based components; established relationship with MSIL - JBML has a healthy share of business with presence across all major models of MSIL, the largest PV manufacturer in the country with a domestic market share of 51.2% in FY2019. The company is the major supplier of BIW parts (such as welded sheet metal assemblies) for some of MSIL's key models produced at its facilities in Haryana and Gujarat.

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.

Diversified product portfolio likely to improve content per vehicle supplied to OEMs - JBML's product offerings remain fairly 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 the OEMs.

Credit challenges

Significant client concentration risk with ~90% of revenues from MSIL - JBML remains primarily dependent on MSIL for a major proportion of its revenues, with the OEM accounting for ~90% of its revenues in FY2019. 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 inherent cyclicality of automotive industry - With its entire revenues being derived from the domestic PV industry, JBML's revenues and earnings remain exposed to cyclicality in the same. Over the last three quarters, the industry has faced a subdued demand sentiment, with major OEMs (including MSIL) scaling back their production volumes and domestic dispatches to reduce inventory pile-up at the dealerships. This, coupled with JBML's ongoing debt-funded capex, put pressure on its earnings during the last few quarters.

Significant capex requirement for greenfield facility likely to further increase external borrowings - JBML plans to undertake capex of approximately Rs. 250 crore for phase three of its Gujarat operations (to increase its capacity to 7.5 lakh units), and would rely on external borrowings for meeting a major proportion of the same. This is likely to have a temporary impact on the company's capital structure and credit metrics.

Improvement in operating efficiency and return indicators likely to be constrained till new plant ramps up - With the new manufacturing facility being commercialised from January 2019 and the planned capex for phase three, some pressure on operating efficiency and return indicators over the medium term is likely (till the operations ramp up to optimal levels). However, the increased automation and content per vehicle for supplies from the new plant and the confirmed order book in place from MSIL mitigate risks to a good extent.

Liquidity position

ICRA notes that the company's utilisation of working capital facilities (as a proportion of drawing power) remained consistently high, at around 80-90%. Coupled with minimal cash balances (Rs. 1.3 crore as on March 31, 2019), this limits the liquidity buffer available to the company in case of any temporary shortfalls in cash generation. However, this risk is mitigated to an extent by financial flexibility and access to financial markets being the flagship entity of the JBM Group. Additionally, its strong relationship with MSIL bodes well for business expansion going forward, providing stability to its cash flows.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on 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 development of 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 over the years added capabilities to produce exhaust systems, rear axles, torsion beams and fuel filler necks. JBML is listed on the BSE and the NSE with the Indian promoter family and companies controlling 29.3% equity.

Key financial indicators (audited)

	FY2018	FY2019 (Abridged)
Operating Income (Rs. crore)	1,730.4	1,994.0
PAT (Rs. crore)	58.9	52.2
OPBDIT/OI (%)	9.0%	8.8%
RoCE (%)	17.4%	14.9%
Total Debt/TNW (times)	1.0	1.2
Total Debt/OPBDIT (times)	2.3	2.7
Interest Coverage (times)	7.8	5.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating May 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 Mar 2019	Date & Rating in FY2018 Feb 2018	Date & Rating in FY2017 Jan 2017
1	Cash Credit/ WCDL	Long Term/ Short Term	354.50	NA	[ICRA]AA- (Negative) /[ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [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	90.00	NA	[ICRA]AA- (Negative) /[ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
3	Term Loans	Long Term	325.62	282.0	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Commercial Paper Programme	Short Term	75.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	NCD Programme*	Long Term	150.00	NA	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
6	Unallocated	Long Term/ Short Term	1.88	NA	[ICRA]AA- (Negative) /[ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+

*Yet to be placed by the company

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 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	354.50	[ICRA]AA- (Negative)/ [ICRA]A1+
NA	Buyer's Credit Facility/Letter of Credit/Bank Guarantee	NA	NA	NA	90.00	[ICRA]AA- (Negative)/ [ICRA]A1+
NA	Term Loan 1	FY2019	NA	FY2025	140.54	[ICRA]AA- (Negative)
NA	Term Loan 2	FY2018	NA	FY2024	40.35	[ICRA]AA- (Negative)
NA	Term Loan 3	FY2015	NA	FY2025	144.73	[ICRA]AA- (Negative)
NA	Commercial Paper Programme	NA	NA	NA	75.00	[ICRA]A1+
NA	NCD Programme*	NA	NA	NA	150.00	[ICRA]AA- (Negative)
NA	Unallocated	NA	NA	NA	1.88	[ICRA]AA- (Negative)/[ICRA]A1+

Source: Jay Bharat Maruti Limited

*Yet to be placed by the company

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

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