

May 14, 2020

Jay Bharat Maruti Limited: Ratings reaffirmed

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]A+(Stable)/[ICRA]A1; reaffirmed
Buyer's Credit Facility/Letter of Credit/Bank Guarantee	90.00	90.00	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Term Loan	325.62	325.62	[ICRA]A+(Stable); reaffirmed
Unallocated	1.88	1.88	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Total Bank Line Facilities	772.0	772.0	
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) continues to factor in the company's well-entrenched position as one of the key suppliers of sheet metal components to Maruti Suzuki India Limited (MSIL). JBML enjoys strong presence with MSIL, the largest passenger vehicle (PV) manufacturer in India, and is 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. The ratings also note that JBML faces high client concentration risk with MSIL accounting for ~90% of its revenues in 9M FY2020. Although the JV agreement does not constrain JBML from supplying to other OEMs, its capacity constraints offered limited scope for customer base expansion over the years. Although JBML has significant dependence on MSIL for 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 51% market share in FY2020. This mitigates the business risk to some extent.

Despite JBML's strong business position with MSIL, ICRA believes the company's earnings would moderate further in the current fiscal after a relatively subdued performance in FY2020. The domestic automotive industry, which was already undergoing a period of sharp slowdown over the past few quarters, has been further impacted by the novel coronavirus (Covid-19) pandemic in the country over recent months. To contain the disease, the Government of India imposed a 21-day lockdown from March 24, 2020, which was subsequently extended till May 17, 2020. The unprecedented, large-scale lockdown has disrupted production for automobile OEMs and their supply chain from March 2020 onwards. In addition to the production disruptions, the demand shock on account

of the pandemic could be significant, going forward, in an already weak demand environment. Accordingly, ICRA expects the financial performance of auto-ancillaries like JBML to further contract in the current fiscal; although the extent of the same would depend on the pace at which business activity resumes and on consumer spending in the wake of the pandemic.

Given JBML's strategic importance to MSIL, it has also set up a greenfield facility in Gujarat to cater to the OEM's new manufacturing facility in the state, the third phase of which is slated to be commercialised in the current fiscal. Accordingly, the company has incurred sizeable debt-funded capital expenditure (capex) over the past few years to set up the additional capacity for the OEM. 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 and associated production shutdowns across the industry, along with expectations of a gradual demand recovery, JBML's return indicators and credit metrics are expected to further weaken over the near-term.

ICRA also notes that the company continues to face sizeable debt repayment obligations over the medium term, by virtue of the debt-funded capex undertaken recently. With lockdown-induced production shutdowns and demand moderation because of the pandemic, JBML's cash flows and earnings have weakened significantly. Given the current environment, the liquidity cushion available from cash balances and available lines of credit, remains critical. ICRA notes that JBML's liquidity cushion remains relatively moderate due to typical high utilisation of limits vis-à-vis drawing power. Accordingly, the company has been in discussions for arranging alternative lines of credit. In this respect, its healthy financial flexibility as one of the flagship companies of the \$2.2-billion JBM Group offers some comfort. Nevertheless, ICRA would continue to monitor the company's liquidity position and its plans to meet upcoming large debt obligations, and the same would remain a key monitorable. Further weakening of its liquidity profile or inability to arrange alternative sources of funds to meet debt service obligations has the potential to lead to an adverse rating action. Accordingly, developments on this front would 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. Although the current domestic market slowdown 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 51% in FY2020. 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.

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 likely to improve 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 ~90% of revenues from MSIL – JBML remains primarily dependent on MSIL for a major share of its revenues, with the OEM driving ~90% of its revenues in 9M FY2020. 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 cyclicity of automotive industry; current pandemic to further mute revenue growth prospects over the near-term – As JBML derives its entire revenues from the domestic PV market, its earnings remain susceptible to the inherent cyclicity of the same. The industry has been undergoing a period of sharp demand slowdown over the past few quarters, which would be further exacerbated over the near-term by the ongoing pandemic. Accordingly, JBML’s earnings over the near-term are likely to weaken.

Ramp up in new plant likely to be slow under current circumstances, constraining operating efficiency and return indicators – With the third phase of the Gujarat plant being commercialised in the current fiscal even when the utilisation at existing capacities remains sub-optimal, pressure on operating efficiency and return indicators is likely over the medium term (till operations ramp up to optimal levels).

Balance sheet characterised by asset-liability mismatch due to disproportionate 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 overall debt levels have increased to approximately Rs. 495 crore in FY2020 as against Rs. 207 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 coupled with pressure on earnings, could expose the company to some refinancing risks over the medium term.

Liquidity position: Adequate

Despite the moderation in cash flow generation due to the Covid-19 pandemic and general slowdown in the automotive industry, JBML’s liquidity position remains supported to some extent by unutilised working capital limits of about Rs. 20 crore (combination of secured and unsecured limits). Over the near-term, these remain sufficient in meeting the company’s immediate debt servicing obligations. However, the liquidity position is likely to be impacted in case of an extended lockdown and production shutdown. Accordingly, the company is pursuing additional lines of credit from banks. In this respect, 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, is expected to offer support even in these exceptional circumstances.

Rating sensitivities

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

Negative triggers – Significant deterioration in earnings on account of the Covid-19 outbreak or further sustained deterioration in the financial risk profile or further deterioration of its liquidity profile 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.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,730.4	1,994.0
PAT (Rs. crore)	58.9	52.2
OPBDIT/OI (%)	9.1%	8.8%
RoCE (%)	17.4%	14.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.1
Total Debt/OPBDIT (times)	2.3	2.9
Interest Coverage (times)	7.8	5.1
DSCR	3.3	2.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020			FY2019	FY2018
					14-May-2020	5-Nov-2019	25-Jul-2019	16-May-2019	29-Mar-2019	1-Feb-2018
1	Cash Credit/WCDL	Long Term/Short Term	354.50	NA	[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+	[ICRA]AA- (Stable) / [ICRA]A1+
2	Buyer's Credit Facility/Letter of Credit/Bank Guarantee	Long Term/Short Term	90.00	NA	[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+	[ICRA]AA- (Stable) / [ICRA]A1+
3	Term Loans	Long Term	325.62	323.0^	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[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+	[ICRA]A1+
5	NCD Programme*	Long Term	150.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
6	Unallocated	Long Term/Short Term	1.88	NA	[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+	[ICRA]AA- (Stable) / [ICRA]A1+

Amount in Rs. crore

*As on March 31, 2019

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

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Shamsher Dewan

+91 1244545328

shamsherd@icraindia.com

Sruthi Thomas

+91 1244545822

Sruthi.thomas@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumkar@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

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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,
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

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