

Press Release
COMMERCIAL ENGINEERS AND BODY BUILDERS COMPANY LIMITED
February 04, 2022
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	64.00	ACUITE A+ Stable Assigned	-
Bank Loan Ratings	122.00	-	ACUITE A1 Assigned
Total Outstanding Quantum (Rs. Cr)	186.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details

Rating Rationale

ACUITE has assigned the long term rating of 'ACUITE A+' (read as ACUITE A plus) and the short term rating of 'ACUITE A1' (read as ACUITE A one) on the Rs. 186.00 Cr bank facilities of Commercial Engineers & Body Builders company Limited (CEBBCO). The outlook is 'Stable'.

The rating factors in the strong business risk position of Jupiter Group characterised by its established position in the wagon manufacturing industry, backward integrated manufacturing units as well as diversified product offering, strong financial risk position and value added technological tie-ups with global brands. Further, the group has a strong liquidity position marked by low utilization of its fund based limits and prepayment of a significant portion of its term debts through an equity infusion under Foreign Direct Investment (FDI) in FY2021. Over a period of time, the group is increasing its customer base by adding private players in order to consciously reduce its high dependence on Indian Railways. In FY2021, the group could successfully bag a sizeable tender from the Ministry of Defence, further adding to its customer diversification. The rating also draws comfort from the positive outlook of wagons and other transport ancillary industry led by Government's focus on indigenous manufacturing.

The above strengths are partially offset by working capital intensive nature of the group's operations, exposure to volatility in raw material prices and significant dependence on Indian Railways (IR) for orders. Lack of steady orders has constrained the operating performance of wagon manufacturers historically.

Currently, JWL and Commercial Engineers and Body Builders Company Limited (CEBBCO) are in the process of amalgamation. Completion of the process within the stipulated time and operational synergy between the entities will remain a key monitorable.

About Company

Established by Mr. Kailash Gupta in 1979, Madhya Pradesh based CEBBCO is engaged in the manufacture of vehicle bodies for Medium & heavy duty commercial vehicles (M&HCV). 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. JWL's promoters and group companies' total stake in CEBBCO is 60.66 per cent. CEBBCO's diverse pool of products find its use in a broad

spectrum of industries such as mining, road construction, goods transportation, solid waste management, municipal applications and defence. The company has an installed capacity of 1500 wagons annually, of which it has received G-105 approval from RDSO for manufacturing around 1000 wagons in July 2019. The company operates through six manufacturing units of which five are located in Madhya Pradesh and one in Jamshedpur, Jharkhand. Currently, the operations are headed by Mr. Vivek Lohia and Mr. Abhishek Jaiswal.

About the Group Company

Incorporated in 2006, JWL is a leading player in the Indian Railway wagon manufacturing industry. The manufacturing facility is located at Shahgunj, Bandel in West Bengal. The company's operations are managed by Mr. Vivek Lohia and Mr. Vikash Lohia. JWL has a Research Design and Standards Organisation (RDSO) approved manufacturing capacity of 4200 wagons annually and is backward integrated with a foundry shop to manufacture various components of a wagon. JWL acquired 45.45 per cent stake in CEBBCO in Jan'19 under a debt resolution plan of the latter. JWL meets around 25 per cent wagon requirement of the IR.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profiles of Jupiter Wagons Limited (JWL) and Commercial Engineers & Body Builders Company Limited (CEBBCO), together referred to as 'Jupiter group' on account of similar line of business, financial linkages in terms of guarantees given by JWL to CEBBCO, JWL holds 45.45 per cent stake in CEBBCO and operational linkages between the entities. The aforementioned entities are already in the process of amalgamation.

Key Rating Drivers

Strengths

Strong brand, established track record of business operations buoyed by experienced management

Jupiter Group is a leading Indian manufacturer of railway wagons, passenger coaches, wagon components, castings, advanced transport equipment and ancillaries for CVs in the country. Mr. Vivek Lohia is the common director in both the companies. The top management has an extensive experience of around two decades in the aforementioned industry. They are further backed by a qualified pool of professionals. Both the entities have a strong track record of its business operations which has helped them to gain an in-depth understanding of the market dynamics. JWL bags around one-fourth of the orders floated by IR whereas CEBBCO receives routine orders from Tata Motors Limited and VE Commercial Vehicles Limited. Established relationship with customers has ensured brand and product loyalty and that with suppliers has enabled ease in procurement of raw materials. Acuité believes the management's rich expertise will bolster the group's growth plans, going forward.

Value added diversification along with a wide product portfolio

With acquisition of a significant stake in CEBBCO, JWL has stepped into inorganic growth thereby foraying into manufacturing local bodies for CVs with an extensive portfolio of product offerings. The group operates in broadly three business segments namely - commercial vehicles applications, railways and container manufacturing. The group has tied-up with reputed international brands for in-house manufacturing of brake disc and brake system, which is expected to reduce dependence on purchased castings from third parties, and hence strengthen the group's margins, going forward. The group generates its revenue predominantly from domestic market with an extensive pan-India manufacturing footprint

with 7 strategically located units.

Strong financial risk profile

The group's financial risk profile is strong marked by high networth, low gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.482.82 Cr as on March 31, 2021 from Rs.353.50 Cr as on March 31, 2020, due to accretion of reserves and equity infusion to the tune of Rs.85 Cr. Gearing of the group stood below unity at 0.29 times as on March 31, 2021 as against 0.51 times as on March 31, 2020. Both networth level and capital structure has improved significantly post infusion of PE funds in FY21. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 0.87 times as on March 31, 2021 from 1.07 times as on March 31, 2020. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 4.38 times and Debt Service Coverage Ratio (DSCR) at 2.35 times as on March 31, 2021. NCA/TD stood at 0.49 times in FY2021. Going forward, Acuité believes that the financial risk profile of the group will be sustained backed by steady accruals and no major debt funded capex plans.

Robust scale of operations

The scale of operations of the group has marked an increasing trend with a growth of 8.19 per cent in FY21 and 21 per cent in FY20, owing to an increase in demand for the products both from wagons and commercial vehicles segments. FY20 was the first full year of operations for CEBBCO post acquisition by JWL. Revenue of the group stood strong at Rs.995.75 Cr in FY21 as against Rs.920.35 Cr in FY20. The increase in revenue can also be attributed to the constant technology upgradations undertaken by the management by foraying into backward integration with the help of technology tie-ups with overseas partners. Further, the group has achieved revenues of around Rs.790 Cr till Nov'21 (prov.). In addition, the group has sizeable order book in hand of around Rs.1000 Cr as on 30th Nov'21, which imparts strong revenue visibility over the medium term.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 168 days as on 31st March 2021 as compared to 122 days as on 31st March 2020. The GCA days are high due to stretched inventory holding as the group maintains stock of wheel sets and other inventory for around 3 to 4 months for continuous manufacturing process. The debtor days are efficient at 27 days in FY21 as compared to 15 days in the previous period. Acuité believes that the working capital operations of the company will at similar levels due to the expected increase in order book over the medium term.

Susceptibility to volatility in raw material prices; tender based orders limit ing pricing power.

The raw material costs form around 75 per cent of the group's operating cost. Raw material majorly includes steel and related products. The orders have a long execution period, and not all orders are covered by a price-variation clause. Hence, the group is exposed to fluctuations in steel prices throughout the manufacturing cycle. On the other hand, pricing power is restricted on account of tender-based orders by IR and others like Ministry of Defence. The group has an inherent risk of bagging orders through tenders, however, the long track record and the group's ability to cater to around 20-25 percent of wagon demand of IR since last three fiscals, partially mitigates this risk.

ESG Factors Relevant for Rating

For the wagon manufacturing and transport ancillary industry, GHG emissions and product lifecycle is of paramount importance. Further parameters such as inclusion of clean, green technologies in manufacturing, material, energy and water efficiency, proper waste disposal are of key importance to the industry. The social impact of the company is assessed through safety of its employees as well as customers is of paramount importance. Some other significant social issues include employment quality, product safety, product quality and initiatives for community support and development. Upholding strong business ethics and competitive behavior of companies are a key material issue for the transport equipment industry. Other sensitive yet significant issues for the sector include board management

compensation, board independence and board compensation. The takeover defense mechanisms, audit committee functioning and board diversity are also key material issues for the industry.

The group has pollution control equipment installed in the unit. JWL is ensuring employee skill development through periodic training sessions and community development through contribution in PM relief Fund and more.

The group is committed to maintain the highest standards of Corporate Governance and adhere to the corporate governance requirements set out by SEBI. JWL's Board of Directors (BoD) comprises of 8 directors out of which includes two female independent director and CEBBCO's BoD comprises of 7 directors out of which 4 are Independent directors, reflecting healthy diversity. Majority of the Audit committee members and Remuneration committee are Independent Directors. The group has adequate policies on whistleblower protection programme, related party transactions and ethical business practices. The group has a dedicated CSR Committee and it is involved in several philanthropic activities.

Rating Sensitivities

- Sustenance in the scale of operations with group's ability to successfully manufacture brake systems, hence improving profitability margins.
- Elongation in working capital cycle.
- Any major debt funded capex plan
- Any significant reduction in order flow from Indian Railways.

Material Covenants

None

Liquidity Position: Strong

The group's liquidity position is strong marked by healthy net cash accruals of Rs.65.09 Cr as on March 31, 2021 as against long term debt repayment of Rs.14.34 Cr over the same period. The current ratio stood comfortable at 1.41 times as on March 31, 2021 as compared to 1.18 times as on March 31, 2020. The company has unencumbered cash and bank balance of around Rs.41 Cr in FY21. The fund based limit remains utilised at only 35 per cent over six months ended November, 2021. The company has neither availed loan moratorium, nor Covid loan. Going forward, Acuité believes the liquidity position of the group will be sustained marked by enhanced net cash accruals and low reliability on external borrowings.

Outlook: Stable

Acuité believes that the outlook of the group will remain stable over the medium term backed by its established market position, strong order book position, comfortable business and financial risk position and diversification in its product mix. The outlook may be revised to 'Positive' if the company register a higher than expected growth in revenues while significantly improving its operating profitability. Conversely, the outlook may be revised to 'Negative' in case of lower than anticipated revenues or further elongation in the working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	995.75	920.35
PAT	Rs. Cr.	45.44	43.97
PAT Margin	(%)	4.56	4.78
Total Debt/Tangible Net Worth	Times	0.29	0.51
PBDIT/Interest	Times	4.38	3.58

About the Rated Entity - Key Financials (Standalone)

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	363.46	125.74
PAT	Rs. Cr.	12.30	(0.14)
PAT Margin	(%)	3.39	(0.11)
Total Debt/Tangible Net Worth	Times	0.57	0.54
PBDIT/Interest	Times	4.05	1.93

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Federal Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 Assigned
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A1 Assigned
Kotak Mahindra Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A1 Assigned
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A+ Stable Assigned
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A+ Stable Assigned
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	19.00	ACUITE A+ Stable Assigned
Aditya Birla Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE A+ Stable Assigned

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About Acuité Ratings & Research

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