

Press Release

Jupiter Wagons Limited (Erstwhile Commercial Engineers And Body Builders Company Limited)

March 24, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	125.61	ACUITE A+ Stable Assigned	-
Bank Loan Ratings	104.50	ACUITE A+ Stable Reaffirmed	-
Bank Loan Ratings	294.00	-	ACUITE A1 Assigned
Bank Loan Ratings	81.50	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	605.61	-	-

Rating Rationale

Acuite has reaffirmed and assigned its long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and the short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs.605.61 Cr bank facilities of **Jupiter Wagons Limited (Erstwhile Commercial Engineers and Body Builders Company Limited)**. The outlook is '**Stable**'.

Rating Rationale

The rating reaffirmation continues to reflect increased scale of operations and improved financial risk profile of JWL in FY2022, supported by the increased demand of wagons and expectations of stable operating performance in the current year as well, on account of strong order book translating into an order book to operating income (OB/OI) ratio of ~4 times. Acuite notes that while JWL has undertaken calibrated capex over the past years, the commensurate returns from the planned capex in the form of backward integration is likely to reflect gradually in JWL's earnings in FY2023 and FY2024 along with diversification of business profile. The financial risk profile have remained comfortable with gearing below unity and strong debt coverage indicators on the back of consistent increase in the networth and higher cash accruals. The rating also derives comfort from the strong liquidity position of the company marked by surplus cash accruals and unutilized lines of fund-based limits. The rating also factors in reputed client profile of the company supported by increasing demand in the industry providing revenue visibility over the medium term. These strengths are however, partly offset by the high working capital intensity in the operations, susceptibility to volatility in raw material prices and high client concentration.

About the Company

Jupiter Wagons Limited (Erst while Commercial Engineers and Body Builders Company Limited) was an associate of the erstwhile JWL since the latter acquired a 45.45% stake in FY2019 under a debt resolution plan. Commercial Engineers and Body Builders Company Limited (CEBBCO) was traditionally involved in manufacturing bodies of commercial vehicles

and has recently forayed into the wagon manufacturing business. JWL has merged with CEBBCO through **reverse merger** and the combined entity has been listed on stock exchanges. The company's name (formerly known as CEBBCO) was changed to Jupiter Wagons Limited (JWL) w.e.f. May 25, 2022. It is a Kolkata based company with a capacity to manufacture ~6,500 wagons annually and also has backward integrated facilities to manufacture various components of a typical wagon like couplers, bogies, draft gears, CRF section, etc. It has JVs and partnerships with European major Tatravagonka of Slovakia, DAKO-CZ of Czech Republic, Kovis of Slovenia, Taleres Alegria of Spain, to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of JWL (formerly known as CEBBCO) to arrive at the rating.

Key Rating Drivers

Strengths

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

JWL is a leading Indian manufacturer of railway wagons, passenger coaches, wagon components, castings and advanced railway transportation equipment in the country. With acquisition and merger with CEBBCO, JWL has stepped into inorganic growth thereby foraying into manufacturing local bodies for commercial vehicles with an extensive portfolio of product offerings. Thus, at present the company has been operating in broadly three business segments namely - commercial vehicles applications, railways and container manufacturing. The company have a strong track record of its business operations which has enabled it to gain an in-depth understanding of the market dynamics.

JWL was founded by Mr. Murari Lal Lohia and is currently managed by his sons Mr. Vivek Lohia and Mr. Vikash Lohia. The current directors have an extensive experience of nearly 18-20 years in the wagons manufacturing industry. They are further backed by an experienced and qualified pool of management comprising of other Board of Directors and senior level management. Established relationship with customers has ensured brand and product loyalty and that with suppliers has enabled ease procurement of raw materials. Acuité believes the management's rich expertise will continue to bolster the business, going forward.

Revenue to Rise Sharply in FY23; Expected boost in profitability buoyed by backward integrated operation

The operating revenue of the company improved to Rs 1178.43 Cr in FY 2022 as compared to Rs 995.78 Cr in FY 2021. With the order pipeline remaining adequate, the revenues are expected to witness healthy growth in the near term, early trends of which can be seen from the revenue of ~Rs. 1356.55 Cr recorded till Q3FY23 (Prov). The company has an outstanding order book of about Rs 5703 Cr. consisting of Rs 5183.65 Cr. from manufacturing of wagons and Rs 519.35 Cr. from segments other than wagons and coaches, translating into an order book to operating income (OB/OI) ratio of ~4 times as on 31st December 2022. Acuité expects JWL's revenue and EBITDA to increase substantially in FY23, mainly driven by the wagon orders from the Indian Railways (IR) and other private players, given that the company's capacity is highly underutilised (FY22: 38% utilised). However, timely execution of the order would be a key monitorable. The agency estimates the company to clock revenue of Rs 1800-1900 Cr in FY23, considering the orders in hand.

Further, JWL's generates revenue from diversified sources with a wide range of product offerings alongside wagons, such as wagon accessories, passenger coach accessories, complete track solutions, shipping containers, load bodies of tipper and tanker, load cargo bodies, troop carrier vehicle bodies .

Backward integration of operations leveraged the business, as reflected through lower cost

of capital, cost savings due to improved procurement efficiencies and cost rationalization. JWL has an integrated facility with cold roll forming mill which produces casting that are used in manufacturing of wagons, thereby reducing dependence on purchased castings from third parties. Going forward, Acuité believes JWL will derive significant cost benefit with in-house manufacturing of brakes as the same constitute around 7 per cent cost of a wagon further boosting the profitability in the near term. JWL will be the only wagon manufacturing company in India to manufacture brake discs (There are 6 major RDSO approved wagon manufacturing players in India in the private sector, including JWL). Moreover, ramp-up in operations of its joint ventures (JVs), which are into manufacturing components for wagons, will aid margin expansion.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and debt protection metrics. The tangible net worth of the company improved to Rs.651.25 Cr as on March 31, 2022 from Rs.600.01 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood comfortable below unity at 0.21 times as on March 31, 2022 as compared to 0.23 times as on March 31, 2021, although there was some increase in the debt levels in FY2022 due to the higher working capital requirements. Acuité notes that the company has been regularly incurring capex in the last few years for improving efficiency and backward integration. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.56 times as on 31st March, 2022. Moreover, with adequate profitability and limited reliance on external borrowings in FY2022, the coverages improved with Interest Coverage Ratio at 6.45 times and Debt Service coverage ratio at 3.07 times as on 31st March, 2022. Calibrated capex undertaken by JWL over the past years, funded through internal accruals along with lower reliance on debt owing to healthy surplus cash accrual, has also helped it maintain comfortable leverage. Commensurate returns from the planned capex in the form of backward integration and optimal capacity utilisation will remain key credit monitorable for JWL. Acuité expects the leverage and coverage indicators to remain healthy in FY23 and improve over the medium term further on the back of surge in earnings further boosting the profitability of the company.

Further, Acuité notes that JWL had submitted a resolution plan for acquisition of Stone India Limited (SIL), and the same has been approved by Committee of Creditors of SIL and is subject to requisite customary approvals. JWL expects to fund the purchase consideration of ~Rs.25.00 Cr through its internal accruals. SIL's capacity for manufacturing of disc brake systems will be a backward integration for the JV JWL DAKO-CZ India Ltd.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked by Gross Current Assets (GCA) days of 176 days as on 31st March 2022 as compared to 178 days as on 31st March 2021. The working capital intensity remains inherently high in the industry due to milestone-based payments and the sizeable security deposits kept with the government authorities. The GCA days remained stretched on account of high the inventory period which stood at 110 days in FY22 as compared to 100 days in FY21. The inventory levels of the company have been historically high owing to Indian Railway (IR)'s procurement policy, where wheel sets for wagons and other locomotives can be procured only from Rail Wheel Factory (manufacturing unit of IR). Hence the company has to maintain an inventory of around 3 to 4 months for smooth manufacturing process without any interruptions. The debtor days is efficient at 22 days in FY22 as compared to 27 days in the previous period. Acuité believes with the 30 percent of the order pipeline being from IR, the company's working capital intensity will remain at similar levels over the medium term with significant inventory holding. Moreover, with the record allocation of Rs. 2.4 lakh Cr to IR in the union budget 2023-24, Acuité expects the order book to increase further in FY24 and hence inventory holding for the same, as IR is planning to roll-out large size tenders in the upcoming 3-6 months.

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. With the introduction of 'Jupiter Electric Mobility,' the company is expected make a significant contribution to vehicle electrification by reducing dependence on fossil fuels as the source of energy and simultaneously reducing the carbon foot-prints in urban/upcountry regions and improving upon conservation of environment. The company has pollution control equipment installed in the unit.

The social impact of the company is assessed through safety of its employees as well as customers and is reflected through 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. JWL is ensuring employee skill development through periodic training sessions and community development through contribution in PM relief Fund and more.

The company 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 11 directors out of which includes two female independent directors reflecting healthy diversity. Majority of the Audit committee members and Remuneration committee are Independent Directors. The company has adequate policies on whistleblower protection programme, related party transactions and ethical business practices. The company has a dedicated CSR Committee and it is involved in several philanthropic activities.

Rating Sensitivities

- Elongation in working capital cycle
- Enhancement of production capacity
- Change in capital structure
- Reduction in order flow

Material covenants

None

Liquidity Position: Strong

The company's liquidity position is strong marked by high net cash accruals of Rs.73.03 Cr as on March 31, 2022 as against long term debt repayment of Rs.11.51 Cr over the same period. The company has prepaid a significant portion of its term loan in FY2021 through an equity infusion under Foreign Direct Investment (FDI), and the remaining was used for working capital purpose in the business. The current ratio stood comfortable at 1.60 times as on March 31, 2022 as compared to 1.51 times as on March 31, 2021. The company has unencumbered cash and bank balance of around Rs.40.61 Cr in FY22. The fund based limit remains utilised at 47 per cent over seven months ended January, 2023. The working capital cycle of the company is intensive marked by Gross Current Assets (GCA) of 176 days as on 31st March 2022 as compared to 178 days as on 31st March 2021. Going forward, Acuité believes the liquidity position of the company will be sustained marked by enhanced net cash accruals and low reliability on external borrowings.

Outlook: Stable

Acuité believes that the outlook of the company 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 improving its operating profitability. Conversely, the outlook may be revised to 'Negative' in case of further elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1178.43	995.78
PAT	Rs. Cr.	49.66	53.40
PAT Margin	(%)	4.21	5.36
Total Debt/Tangible Net Worth	Times	0.21	0.23
PBDIT/Interest	Times	6.45	5.12

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Feb 2022	Bank Guarantee	Short Term	20.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	22.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	19.00	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A+ Stable (Assigned)
	Bills Discounting	Short Term	65.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	15.00	ACUITE A+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Federal Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	39.50	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	42.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	130.00	ACUITE A1 Assigned
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A1 Assigned
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1 Assigned
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	63.00	ACUITE A+ Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.39	ACUITE A+ Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.61	ACUITE A+ Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	43.00	ACUITE A+ Stable Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	34.00	ACUITE A+ Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A+ Stable Assigned
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A1 Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A1 Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A1 Assigned

Federal Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A1 Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 Assigned
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.00	ACUITE A+ Stable Reaffirmed
Aditya Birla Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.11	ACUITE A+ Stable Reaffirmed

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About Acuité Ratings & Research

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