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Jupiter Wagons hitches ride on diversification

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Informist, Thursday, Dec 22, 2022 By Avishek Rakshit KOLKATA Jupiter Wagons Ltd, which recently forayed into the commercial electric

vehicles space, is looking to further diversify its portfolio from being a pure rail wagon maker.

The company, which already has plants in cities including Kolkata, Jabalpur, Indore and Pune, is banking on joint ventures with global players and organic growth. The company is also keeping an eye on acquisitions, which it feels can streamline the portfolio further.

The Diversification Plan Is Not Aimed Just At De-risking From A Single Line Of Business But Also To Improve Margins Down The Line

The diversification plan is not aimed just at de-risking from a single line of business that could be hit by adverse conditions, but also to improve margins down the line.

Railway brakes, a product vertical dominated by select players, came as a natural choice for Jupiter Wagons. First, it offers lower degree of competition and secondly, the margins are far superior to the company's existing portfolio mix.

Banking on its global partners, the company is also looking to double its exports to account for 20% of its revenue in the next five years.

In an exclusive interview with Informist, Managing Director Vivek Lohia discusses the diversification plans and more.

Following are edited excerpts from the interview:

Q. Wagon manufacturing has been your core strength, but you recently diversified into electric commercial vehicles. What other your other diversification plans?

We are very much focussed on the railway brake system line of business. This market, which is around 30 bln rupees in size now, is dominated by two global players, Knorr-Bremse and Faiveley Transport. It is going to remain a technology-driven sector, which will become a 50-60 bln rupee industry. And as I see it, it will be restricted only to four-five major players. This presents us a good opportunity to tap the market.

We will start production from this (financial) year and target to earn 10 bln rupees of revenue from this business alone in the next two years. The operating margins are also high at around 30-40% in this business, which will benefit us.

Q. So you're taking on these global players alone or in tie-ups?

It is through joint ventures with leading global players, where we have a 50% stake. The first such joint venture is with the Czech company Dako-CZ for high-speed and freight brakes manufacturing and the second one is with the

Slovenian company Kovis D.O.O., which will make brake discs.

Q. How much investment have you committed for this?

We already have plants in Kolkata and Jabalpur that are well-equipped to manufacture braking systems. These manufacturing lines and the technology deployed there are at par with global standards. So, there isn't much of a capital expenditure we need to commit at the moment for this business.

Q. Since you are in global tie-ups, will you also look at exporting railway braking systems?

Definitely. Around 50% of the production from these plants will be exported to Europe and the rest is meant for the Indian market. The joint ventures give us access to Europe.

Also, it needs to be noted that these companies (Darko and Kovis) are facing production problems in Europe, like power and labour shortage and other regulatory issues. They are also looking to de-risk themselves from sourcing from China and are looking at India as an alternative. Thus, it presents us an excellent opportunity to tap the export market and become a sourcing hub for them.

Q. You recently acquired Stone India through the insolvency and bankruptcy route. Was it acquired to boost this brake systems business?

Yes. The Committee of Creditors has cleared the proposal and we are awaiting the NCLT (National Company Law Tribunal) approval for the takeover.

Actually, Stone India has a lot of licences (railway brake making) and they have a 13-15 acre facility in Taratala, Kolkata. This whole plant will be upgraded. We wanted a space where we could set up an integrated brake-making facility.

Moreover, we already have access to all the new licences via our JV partners, and this acquisition gives us access to all the legacy licences that Stone India had. Effectively, we now have the entire licences portfolio with us.

Q. Are you also looking at export opportunities for your container business?

Well, all the containers which General Electric purchases from us are exported and the rest are used up in India. We make very specialised containers like refrigerated ones and deal with marquee clients.

General Electric was earlier sourcing these containers from China and Taiwan for their global operations but it has started sourcing from here now. This is a niche market which we are creating in the country. India currently does not even have 2% of the global container market.

Q. You entered the metro coach business in partnership with Spanish company CAF, Construcciones y Auxiliar de Ferrocarriles. Any update?

We have started participating in most of the domestic metro rail tenders like those from Delhi, Delhi-Meerut, Bengaluru, and others. As soon as we get a tender, we will start manufacturing. But any investment and the future of this business entirely depends on us bagging tenders. Metro coaches are not meant for exports.

Q. If you are not investing now, why did the board recently approve fund-raising to the tune of 1.5 bln rupees?

We are just taking clearances from the board in case we require something in future. We have very strong cash flows to fund our current needs. We are a debt-averse company and make investments from our cash flows. Down the line, we would like to remain like this.

But then, we may require to raise money and depending on market conditions, will take a call on the mechanism. But being a listed entity, we can have few choices.

Q. Amid this diversification drive, what happens to your core wagons business?

By next (financial) year, we will target to produce 600 wagons per month from the current level of 450 units. The wagon order book is growing every quarter.

Q. With these diversification projects, to what extent do you think you'll be able to reduce your dependence on the government for the railways business?

The overall dependence on the government is 30-40%. Right now, 70% of our business comes from the Railways, which is primarily for wagons. But 50% of the wagon orders are from private players like steel and cement companies that reduces the share of government orders in the overall portfolio.

The dependence on government orders is going down and once the brake manufacturing kicks off, the share of exports will also increase. This could effectively reduce the share of business from the government to our portfolio.

End

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