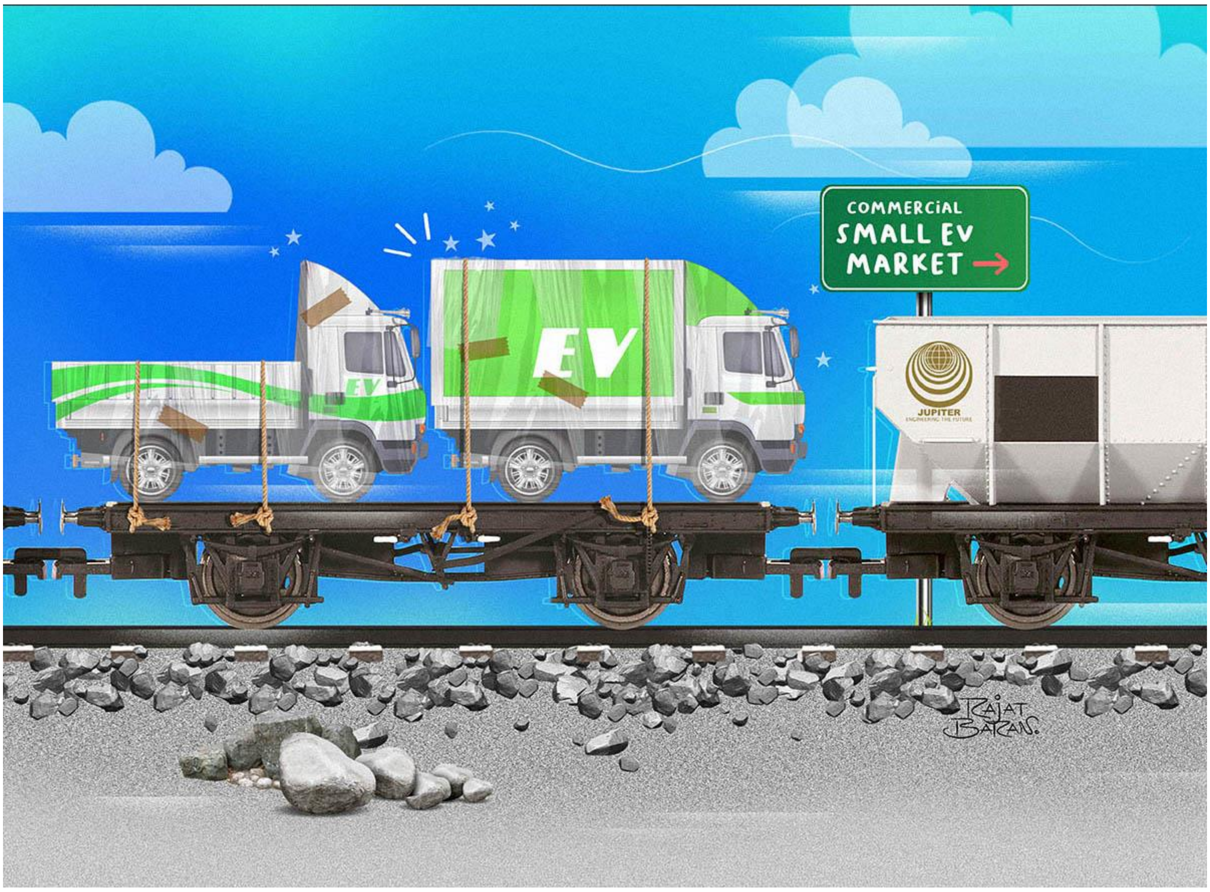
Rail wagon maker Jupiter bets big on electric trucks



The cash-rich, debt-light company, which counts the railways as its top client, is riding a wave of an upbeat rail freight market. But will its commercial EV plans come to fruition?

Aakriti Bhalla

Delhi
15 December, 2022

ithin six months of listing, railway parts manufacturer Jupiter Wagons has seen its stock jump over 65% to hit a 52-week high last week.

Even though it's fairly new at the bourses, the Kolkata-headquartered company, which counts the Indian Railways among its top clients, has been in the wagon-making business for the past 16 years. Armed with an A+ rating from ratings agency ICRA, the company boasts robust financials.

Jupiter Wagons's turnover crossed Rs 1,000 crore last fiscal year. For the quarter ended 30 September 2022, its operating profit margins rose to 12.22% from 9.97% in the same period last fiscal. It claims to have a full order book for its wagons until 2024. And an upbeat rail freight market comes as a boost.

"The company's wagon and commercial [vehicle] body-building business has been a beneficiary of the current upcycle in the market. Its peers in the space, like Titagarh Wagons, have also been doing well," says Abhishek Basumallick, founder of equity research service firm Intelsense.

But Jupiter Wagons is not done yet. The company plans to unveil two commercial electric vehicles—a 2-tonne and a 7-tonne light electric commercial vehicle—at the Auto Expo in January, says managing director Vivek Lohia. Jupiter Wagons, in partnership with Canadian EV maker GreenPower, will formally launch these EVs in the first half of next year.

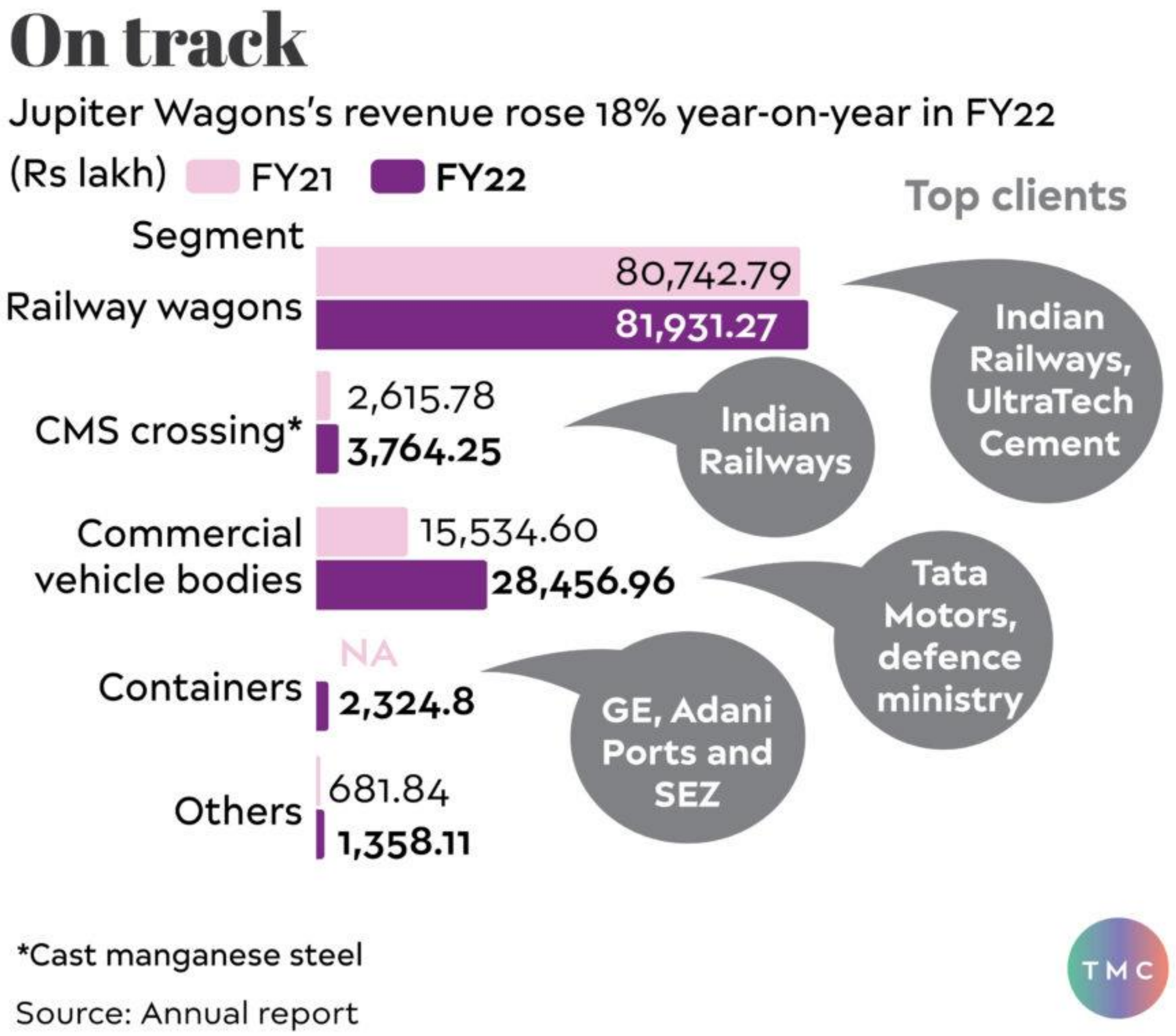
With this move, the firm aims to provide sustainable solutions for last-mile delivery between cities and to satellite towns. Lohia goes so far as to say that if the company can pull off these plans, it could help India replace China as the “global sourcing hub” for producing EVs for its partner GreenPower.

And how will Jupiter Wagons accomplish this?

The firm, Lohia says, has always been debt-averse and will continue to rely on equity-led growth even for its EV business. ICRA expects Jupiter Wagons’s liquidity to remain adequate, aided by healthy annual cash flows from operations and limited debt-funded capex commitments. But is the cash flow good enough to support diversification into a nascent sector, one that is seen as risky owing to the attendant costs, long gestation periods and fast-changing technology?

Before we look into the firm’s EV ambitions, it’s important to understand its core business.

The mainstay



Founded in 2006 by Vivek Lohia and his father, Murari Lal Lohia, Jupiter Wagons started out as a manufacturer of railway wagons. Over the years, the firm has expanded into four key areas: railway wagons, cast manganese steel crossings, commercial vehicle bodies and other components, and containers. In 2021-22, rail wagons accounted for 70% of its revenue, followed by the commercial vehicle business (24%).

Three factors in particular have proved to be a game changer for the company's business.

- In 2015, Jupiter Wagons entered into a partnership with Tatravagonka, a Slovakian rail freight car manufacturer, which currently holds a 20% stake in the firm.
- In 2019, the firm acquired Commercial Engineers and Body Builders Co. Ltd (CEBBCO), a Madhya Pradesh-based manufacturer of tippers, trailers and defence vehicles, which also builds rail wagons.
- It has also partnered with several foreign companies to tap into their supply chains.

The acquisition of CEBBCO in particular helped the company boost its market share in the wagon business and, at the same time, enter the commercial vehicles segment. It's important to note here that Jupiter Wagons listed in June this year after its reverse merger with CEBBCO, which has been building automobile parts for the past four decades and made its stock market debut in 2010.

"If one looks at the company, it is doing a significant amount of capex," says Basumallick from Intelsense. "This also reflects in its acquisition of CEBBCO as well as [joint ventures] with foreign players in brake systems and other backward integration areas. So, definitely the company has been going aggressive."

But wagon manufacturing forms the core of its business. And this segment stands to gain significantly from the Indian Railways, which plans to spend Rs 100,000 crore to buy 90,000 wagons and strengthen rail infrastructure. In fact, Jupiter Wagons's order book-to-operating income ratio, which measures the size of a company's order book relative to its operating income, is 4, according to ICRA.

"Our order book is close to about Rs 6,000 crore and we are practically booked till 2024. We are now producing close to 500 cars, and our target is to go up to about 600 wagons per month," says Lohia.

However, the firm's reliance solely on the railways to grow its order book is a key risk, points out ICRA.

That said, when the firm kicked off operations close to two decades ago, the railways accounted for 95% of its order book. Today, the split in the order book between the railways and the private sector is close to 50-50, Lohia said in an analyst call last month. "And I think, as quarters progress, the order from the private sector will increase further and these orders carry better margins," he said during the call.

The idea is to build a balanced portfolio of both government and private sector clients that complement each other, says Lohia. But the railways, he adds, "is our biggest customer, so we cannot ignore it in general and we wouldn't even like to ignore the Indian Railways".

The company also counts several private sector players as its clients, such as Adani Ports and SEZ, UltraTech Cement and leasing firm GATX Corp. These firms also provide better profit margins compared to the railways. The reason: Private players demand specialized wagons suited to their needs. For example, the firm is building double-decker wagons for auto parts makers to transport their vehicles.

As its core business is expected to keep growing over the coming years, the next logical step is to diversify. And this is where electric vehicles enter the picture.

The EV ambition

"EV businesses have less moving parts in comparison to traditional vehicles, such as battery, the body and software," says Basumallick. "Now as businesses grow, they have cash in hand, so they will do a lot of capex and work towards empire-building. And there is nothing wrong with that. Their balance sheet is decent and they aren't over-leveraged either."

And Jupiter Wagons doesn't want to be left behind in the EV race.

"We want to be at the forefront of any technological evolutions and, similarly, now with the electric vehicles, that has been an endeavor," says Lohia. "When I entered the [wagon] business, I saw how other players were very comfortable in what they were doing, but [to me] it was very clear that it cannot sustain in the long term unless you evolve. That's how a lot of these very good old businesses have died down over time."

In the analyst call mentioned above, Lohia said he was bullish about the company's EV venture and expected it to be a game changer.

His confidence is not unfounded. To find its feet in the EV space, Jupiter Wagons can leverage its existing supply chain, its manufacturing land bank of over 2,000 acres and its familiarity with the commercial vehicles market.

Moreover, much of the demand in the commercial EV space will be for three-wheeler and four-wheeler light commercial vehicles intended to improve last-mile delivery, according to several industry experts. In fact, the overall penetration of commercial four-wheelers will go up from 5-10% in 2025 to 20-30% by 2030, according to a 2020 report by KPMG.

"When we think of commercial, we think of these big trucks on the [Grand Trunk] road, but remember, commercial is also the smaller intracity players who are delivering that package to our homes," says Gagan Sidhu, director of the New Delhi-based Centre for Energy Finance at the Council for Energy, Environment and Water.

It is this segment that Jupiter Wagons wants to capitalize on. And, to this end, its upcoming commercial EVs could carry goods as well as ensure last-mile passenger connectivity, says Lohia. Jupiter Wagons plans to initially focus on the B2B segment and operate in metro cities. It will then target e-commerce players, port operators and logistics firms before finally entering the B2C segment, notes Lohia.

The company will manufacture small electric trucks in partnership with GreenPower. The Nasdaq-listed firm makes commercial vehicles weighing between 7 and 30 tonnes. Under a 50-50 partnership, the two firms have formed a subsidiary to leverage GreenPower's technological know-how and Jupiter Wagons's manufacturing base.

The plan is to launch the smallest variant of a pickup truck that covers 150-250 km on a full charge based on the battery size. The company has developed a 2-tonne vehicle specially for the Indian market. The other variant, a 7-tonne vehicle, which is in the works, is GreenPower's offering, says Lohia.

“New-age players, in my view, seem to have their finger on the pulse of the market,” says Sidhu from the Centre for Energy Finance. “They are doing a lot of groundwork to understand the right product mix in terms of [tonnage, volume and range].”

But Jupiter Wagons is also in for competition from big players that are vying to dominate the fledgling market of commercial EVs.

A close race

There is Tata Motors, which currently has two vehicles in the commercial EV category: the Tata Ace (a 1.8-tonne truck with a 150-km range) and the Tata Ultra T.7 (an 8-tonne truck with a 100-km range). Mahindra & Mahindra and Switch Mobility, a British unit of commercial vehicle maker Ashok Leyland, also plan to launch electric light commercial vehicles in the country next year.

And competition will be stiff. Tata Motors, for example, is eyeing a business of $500-700 million from electric trucks and buses in the next couple of years, The Economic Times reported. It also announced an order of 39,000 trucks from Amazon, BigBasket and Flipkart, among others, the report said.

In the startup space, on the other hand, Jupiter Wagons claims to have a first-mover advantage. “Compared with other startups, we have a production base and we have experience in producing vehicles. So the ecosystem is available with us. That will help us launch our vehicle faster,” says Lohia.

But is that enough to gain a foothold in the EV market?

“As new businesses will be competing with established brands, they would need to think and decide their market, if they want to go to metros or niche regions,” says Mansi Lall, a research analyst (auto and aviation) at brokerage Prabhudas Lilladher. “For example, tier-2 and tier-3 cities can be a huge market because the selling point there is the cost of fuel, which is a huge factor. Secondly, the time constraint in reaching a destination is not as big a constraint as in metros. Other than that, investments, distribution and tie-ups with dealerships will also be a huge factor.”

Others advise caution. “It will be very difficult to comment at this stage on how many new players will sustain, because it’s a new industry and a new technology,” says Shruti Saboo, associate director at India Ratings and Research, a Fitch Group firm. “There have been cases where the conventional [players] have sustained; there have been cases where new players have completely wiped out the older ones."

The bottom line is: With its strong financials, healthy cash flows, relatively low debt levels and a buoyant order book, Jupiter Wagons is well placed to venture into the EV business. But will it stand the test of time?

"Currently, we are seeing the company in the good part of the cycle, as there is a tailwind in segments such as railway locomotives. Now, whether they are good, bad or ugly will be seen only in hindsight," says Basumallick from Intelsense. "Their asset allocation and if the decisions they made were right or wrong will only be seen in the next 3 to 5 years."

Until then, it's a wait and watch for Jupiter Wagons.