

Sail-Rites Bengal Wagon Industry Private Limited

July 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	66.83 (Reduced from 85.18)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	20.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	86.83 (₹ Eighty-Six Crore and Eighty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to SAIL-RITES Bengal Wagon Industry Private Ltd (SRBWIPL) continue to draw comfort from the joint ownership of Steel Authority of India Ltd (SAIL) and RITES Ltd (RITES) which provides technical support as well as financial flexibility to the company, assured off-take agreement with the Ministry of Railways, Government of India (GoI), improvement in capital structure and stable outlook of the wagon industry.

The ratings also take note of decline in operating income in FY22 (refers to the period April 01 to March 31) due to delays in getting necessary approval for production of covered wagons which resulting in production loss for about 6 months.

The ratings, however, continue to remain constrained by the susceptibility to volatility in input and finished goods prices with tender based and working capital intensive nature of operations.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations (operating income > Rs.300 crore) with regular receipt and execution of orders.
- Sustaining capital structure with gearing remaining below 1.0x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant deterioration in gross operating cycle.
- Decline in scale of operations and PBILDT margins reducing below 8% on a sustained basis.
- Increase in overall gearing beyond 2x.
- Any major debt funded capex over the medium term.

Detailed description of the key rating drivers

Key Rating Strengths

Ownership of SAIL and RITES provides technical as well as financial flexibility: SRBWIPL, being a 50:50 JV of SAIL (rated CARE AA; Stable/CARE A1+) and RITES, benefits from the strong parentage with significant experience in railways and infrastructure sector. SAIL had provided the infrastructure for setting up of the plant, while RITES has provided support in factory planning, supervision, product designing and engineering. Indian Railways has also provided technical assistance. The ownership structure also provides financial flexibility in terms of competitive interest rates.

Apart from the equity required for setting up the project, SAIL and RITES had also infused unsecured loans in the company in FY17 to support the operations.

Assured off-take agreement with Indian Railways for ten years: On November 24, 2015, Ministry of Railways and SRBWIPL entered into an assured off-take agreement, for sale of 12,000 open and covered wagons over the contract period of 10 years and rehabilitation of at least 300 in-service wagons per annum during the said period. In February 2021, the company has received its fourth order for production and supply of 1200 Bogie Covered Wagon Type (BCNAHSM1) new wagons worth Rs.362.88 crore. Out of the above wagon type, 284 Wagons have to be supplied in FY22 and remaining (916 wagaons) will be delivered in FY23. Further it has also received a new order of 480 open wagons in March 2022 from Indian Railways with order value of Rs.162.98 crore. The current order book provides revenue visibility to the company and ramping up of production to meet delivery schedule shall remain crucial.

However, the 10 year contract with Indian railways had exit clause after five years by Indian Railways (ending in 2021). The IR has renewed the contract after expiry of five years for a further period of three years. SRBWIPL is exploring the opportunities to sell wagons to private consumers, which will assist the company in reducing its dependence on Indian Railway. The ability to garner orders from other clients is also a key rating sensitivity.

Declined in turnover and PBILDT margin in FY22.: The total operating income declined by around 35% in FY22 due to lower sales volume of wagons because of shifting of orders from open wagons to covered wagons. The process requires

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

certain approvals (like testing, inspections, manufacturing of prototype wagons, etc.) which took around 5-6 months to start the production; resulting in loss of production for the period. However, from September- October 2022, the production picked up and the company generated a substantial revenue in last 6 months. The company reported operating income of Rs.101.23 crore in FY22 as against Rs.156.99 crore in FY21.

Further, operating profit margins also reduced to 8.52% in FY22 from 13.63% on account of under absorption of fixed cost due to production loss on account of shifting from open wagons to covered wagons. Further, the PBILDT interest coverage ratio also reduced 2.32x in FY22 from 4.56x in FY21 due to reduction in PBILDT relatively lower declined in interest cost. The company generated slightly lower accrual in FY22 vis-à-vis scheduled term debt repayment obligation and same is funded through stretching its creditors and received of statutory receivable (TDS and GST of Rs.1.83 crore) in FY22.

Further in two months i.e till May 2022, the company manufacture and delivered about 75 wagons and generate revenue of about Rs.22 crore.

Comfortable capital structure: The overall gearing of the company stood comfortable at 0.64x as on March 31, 2022 as against 0.70x as on March 31, 2021. However, Total Debt/GCA increased to 4.40x in FY22 as against 2.66x in FY21 mainly due to sharp decline in GCA level. Working capital borrowing slightly increased as on March 31, 2022 due to higher holding of inventory and debtors' level on closing date.

Stable outlook of wagon industry: Indian Railway is largest consumer of wagons. The outlook of the wagon industry is mainly dependent on the demand from the Indian Railways and the budgeted allocation for such outlays. With the government's focus on development of the railway infrastructure and ensuring faster development and completion of tracks, rail electrification, rolling stock manufacturing and delivery of passenger freight services, the long term prospect of wagon industry remains stable.

The prospect of the company lies in its ability to achieve optimum production, manage working capital efficiently and receive need-based support from promoters.

Key Rating Weaknesses

Profitability susceptible to the tender-based pricing for manufacturing wagon; however price escalation clause provides some comfort: While the quantity of order is fixed by the off-take agreement, the contract price for wagon manufacturing shall be equivalent to the L1 price arrived in the open tender of IR. The prices of raw materials are volatile in nature but price variation clause ensures recovery of major increase in input cost. There is an escalation clause in the contract for realization price of the rehabilitation wagon and new wagon manufactured and sold for the volatility in the input prices & wages paid. SRBWIPL sources major raw material for wagon rehabilitation viz. structural, MS plates and SS plates at prevailing market price from SAIL. Other material like wheelsets, airbrake, couplers etc is procured from RDSO approved vendors/RITES inspected suppliers.

Working capital intensive nature of business: Due to change in policy of Railways to stop providing free supply of raw materials (Steels, CTRBs, Wheel Sets & other items) required for wagon manufacturing there has been an increase in working capital requirements of the company for procuring the raw materials.

The current ratio continued to remain moderate at 0.91x as on March 31, 2022. The operating cycle remains high at 90 days as against 89 days in FY21, mainly on account of the higher collection and inventory period. The average collection days remains high at 59 days in FY22 (63 days in FY21).

Liquidity: Adequate

The company had adequate liquidity position which reflected from its low bank limits utilisation of 33% through the past 9 month ended April 2022. Further, it expecting to generate adequate GCA vis-à-vis repayment obligation of Rs.9.6 crore in FY23. Due to low utilisation, the company applied for reduction in overall limits to avoid minimum commitment charge. The expenditure for the planned capex is likely to be paused to avoid blockage of funds over the medium term. Its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company

Incorporated in 2010, SRBWIPL was set up as a 50:50 joint venture between SAIL and RITES, for setting up of a wagon manufacturing and rehabilitation facility. The company was set up based on commitment given to SAIL and RITES by Ministry of Railways for assured off-take of wagons vide its letter dated October 25, 2010.

Accordingly, in September 2015, SRBWIPL set up a wagon manufacturing and rehabilitation facility at Kulti in Burdwan (West Bengal). Post-commissioning, Ministry of Railways and SRBWIPL entered into an assured off-take agreement dated November

24, 2015, for sale of 12,000 wagons over the contract period of 10 years and rehabilitation of at least 300 wagons p.a. during the said period. The company is registered with Research Designs & Standards Organisation (RDSO) for G-105 (2011) quality specification as mandated by the Indian Railways (IR). The plant commenced commercial production in December 2016.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	2MFY23
Total operating income	156.99	101.23	22.00
PBILDT	21.40	8.62	NA
PAT	2.48	1.62	NA
Overall gearing (times)	0.70	0.58	NA
Interest coverage (times)	4.56	2.32	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2023	16.83	CARE BBB; Stable
Fund-based - LT-Cash Credit		-	-	-	41.00	CARE BBB; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	9.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	20.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	16.83	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Sep-21)	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (09-Oct-19)
2	Fund-based - LT-Cash Credit	LT	41.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Sep-21)	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (09-Oct-19)
3	Non-fund-based - LT-Bank Guarantee	LT	9.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Sep-21)	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (09-Oct-19)
4	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A3+	-	1)CARE A3+ (06-Sep-21)	1)CARE A3+ (05-Oct-20)	1)CARE A3+ (09-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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