

## MRT Signals Limited

August 04, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	16.00 (Enhanced from 15.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	161.00 (Enhanced from 131.00)	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Revised from CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable / A Two)
<b>Total Bank Facilities</b>	<b>177.00</b> <b>(₹ One Hundred Seventy- Seven Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The revision in the short-term rating of MRT Signals Ltd (MRT) takes into consideration the healthy liquidity profile of the company marked by improvement in operating cycle and resulting in healthy cash flow from operations in FY22, unutilized fund-based limits, surplus cash and liquid investments as on March 31, 2022.

The ratings also favourably factor improvement in financial performance in FY22 due to increase in order execution in FY22 (refers to period April 1 to March 31).

The above along with a comfortable capital structure adds to the strong financial risk profile of the company. Furthermore, the long track record of operations of the company with experienced promoters enable it to maintain a strong relationship with its suppliers and main customer- The Indian Railways, albeit customer and supplier concentration risk. The rating further notes the healthy order book position providing it medium term revenue visibility.

The ratings, however, continue to be constrained by modest scale of operations, working capital intensive nature of business, tender-based nature of operations in railway signalling industry.

### Rating sensitivities

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

- Increase in the scale of operations over Rs.900 crore while maintaining PBILDT margin on a sustained basis.

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

- Deterioration in capital structure with the overall gearing (>0.75x) or TDGCA (>2x)
- Increase in working capital intensity with operating cycle (>150 days).
- Decrease in scale of operations (<Rs.250 crore) and/or decrease in PBILDT margin (<14%) on a sustained basis.
- Significant deterioration in liquidity profile, with free liquidity (<Rs.20 crore) on a sustained basis.

### Detailed description of the key rating drivers

#### Key rating strengths

#### Long track record of operations with experienced promoters:

The promoter of MRT, Mr. Mahendra Kumar Anchalia, has more than three decades of experience in the field of signalling and telecommunications work for Indian Railways. He is assisted by Mr. Ankit Anchalia and a team of experienced personnel. Long experience of the promoters in this industry and satisfactory track record has led to the established position of the company as a contractor for Indian Railways.

The promoters have been engaged in this business through sole proprietorship firm, M/s MR Trading Company since 1986, which was subsequently converted into partnership firm in 2004 and then into limited company in 2006.

#### Strong relationship with its main customer and suppliers, albeit customer and supplier concentration

MRT installs signalling and telecommunication equipment for the Indian Railways on a turnkey basis. While bidding for projects, it ties up with a technology partner for supply of equipment. The company also has tie-ups with its key suppliers for solid state interlocking signal systems and for digital axle counters. Though the company has no formal agreement, the tie-ups are a result of longstanding associations.

However, there is customer concentration with majority of contracts from Indian Railways and supplier concentration with top two suppliers constituting 35% of the purchases.

#### Improvement in operational performance in FY22 due to higher order execution

MRT's total operating income had increased by 35% y-o-y in FY22 to Rs.429 crore on account of higher execution of orders which had slowed due to COVID related disruption in FY21. Same had also crossed pre-COVID level of Rs.384 crore in FY20. The PBILDT margin though moderated from 18.40% in FY21 to 17.47% in FY22 remained comfortable. Besides, the company

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

has cost escalation being present in some of the contracts The company earned GCA of Rs.55.02 crore in FY22 vs Rs.40.56 crore in FY21, as capital charges remained stable.

Interest coverage ratio remained strong and improved to 9.90x in FY22 vis-à-vis 7.52x in FY21 on account of increase in operating profit while finance charges during FY22 remained similar y-o-y.

In Q1FY23, the company has achieved total operating income of Rs.113.36 crore.

### **Comfortable capital structure**

The capital structure of the company continued to remain comfortable with overall gearing improving from 0.25x as on Mar. 31, 2021, to 0.15x as on Mar 31, 2022. Entire term debt of company comprises unsecured loans from promoters, group companies and body corporates having no defined repayment schedule. Furthermore, even with increase in scale the company's reliance on external debt has been low, due to efficient management of working capital cycle. Same had also resulted in increase in cash flow from operations.

Total debt/GCA also improved from 1.51x as on Mar.31, 2021 to 0.81x as on Mar.31, 2022 on account of increase in GCA and reduction in unsecured loans.

### **Healthy order book position**

The company had outstanding order book representing 1.73x of gross billing in FY22, providing medium term revenue visibility.

### **Key Rating Weaknesses**

#### **Modest scale of operations**

Although the scale of operations have been improving, the same continues to be modest marked with a turnover of Rs.430 crore in FY22 and net worth of Rs.294 crore as on March 31, 2022.

#### **Working capital intensive nature of business, albeit improvement in FY22**

The operations of the company are working capital intensive due to tender based and medium-term nature of contracts with milestone based payments. MRT needs to furnish earnest money deposits (EMD) during the bidding process and a part of the sales proceeds are also withheld in the form of retention money.

The collection period is high on account of money held as retention, however, collection period which had spiked in FY21, due to overall lower and uneven turnover during FY21, had improved from 122 days to 84 days in FY22. Even with an overall longer repayment cycle, counterparty risk is very low and payments are being received in a timely manner. The gross current asset days which also included advance to suppliers as well as security deposits, thus also improved from 260 days in FY21 to 193 days in FY22.

#### **Tender-based nature of operations**

MRT receives most of its work orders from Indian Railways. All these are tender-based and the revenues are dependent on the MRT's ability to bid successfully for these tenders. There are several organized players operating in the segment due to which there is competition. However, the promoters' long industry experience in executing railway signalling contracts for Indian Railways mitigates the risk to some extent.

#### **Liquidity: Strong**

The liquidity position of the company is strong marked gross cash accruals of Rs.55 crore in FY22 against negligible term debt repayment obligation. Going forward also the company does not plan to avail any term debt and engage in capex, keeping debt service coverage ratios healthy. Even though MRT's operations are working capital intensive in nature, it has buffer in its CC limits and the company relies on its own funds to finance the same. The average utilization of the fund based limits in the past 12 months has been ~36%. For its non-fund based limits, however, utilization was high in the range of 80-90%. The company has applied for enhancement for the same, which is under process, and same is expected to improve liquidity further. This apart, the company also has surplus free FDs and liquid investments which enhances its liquidity profile.

#### **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](#)

[Construction](#)

#### **About the company**

Incorporated in 1986 as a sole proprietorship firm, MRT is engaged in carrying out signalling and telecommunications work for Indian Railways on a turnkey basis.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	Q1FY23 (UA)
Total operating income	317.20	429.88	113.36
PBILDT	58.37	75.09	NA
PAT	39.20	53.79	NA
Overall gearing (times)	0.25	0.15	NA
Interest coverage (times)	7.52	9.90	NA

A: Audited, Prov.: Provisional, UA: Unaudited, 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-Cash Credit		-	-	-	16.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	161.00	CARE A-; Stable / CARE A2+

#### 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-Cash Credit	LT	16.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Sep-21)	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; Stable (31-Dec-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	161.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2 (06-Sep-21)	1)CARE A-; Stable / CARE A2 (06-Jan-21)	1)CARE A-; Stable / CARE A2 (31-Dec-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	Non-fund-based - LT/ ST-Bank Guarantee	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.

## Contact us

**Media contact**

Name: Mradul Mishra  
Phone: +91-22-6754 3596  
E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst contact**

Name: Punit Singhania  
Phone: 9874341122  
E-mail: [punit.singhania@careedge.in](mailto:punit.singhania@careedge.in)

**Relationship contact**

Name: Lalit Sikaria  
Phone: + 91-033- 40181600  
E-mail: [lalit.sikaria@careedge.in](mailto:lalit.sikaria@careedge.in)

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