CareEdge RATINGS

Texmaco Rail and Engineering Limited

July 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	803.29 (Enhanced from 733.85)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Long-term / Short-term (LT/ST) Bank Facilities	1,675.95 (Reduced from 1,761.99)	CARE A-; Negative/CARE A2 (Single A Minus; Outlook: Negative/ A Two)	Reaffirmed
Short-term Bank Facilities	30.00	CARE A2 (A Two)	Assigned
Short-term Bank Facilities #	-	-	Withdrawn
Total Bank Facilities	**2,509.24 (₹ Two thousand five hundred nine crore and twenty-four lakh only)**		

Details of facilities in Annexure-1

CARE Ratings Limited has withdrawn the rating assigned to the forward contract limit of the company as the same is now a sub-limit of the bank guarantee limits as per the sanction terms.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Texmaco Rail and Engineering Limited (TexRail) continue to draw strength from its experienced promoters, long track record of operations, established position in the domestic railway wagon industry and diversified revenue profile with presence across various segments of railway infrastructure. The ratings also derive comfort from significant improvement in the order book of the company in May 2022 with orders worth Rs.6,450 crore received for supply of 20,067 wagons from the Indian Railways (IR). The ratings also factor the rising demand for commodity specific wagons among private players as well as for export destinations.

The ratings are, however, tempered by lower than envisaged revenue generation during FY22 (refers to the period April 1 to March 31) with intermittent disruptions caused by the Covid-19 pandemic, significant inflationary pressure on input prices and lower availability of wheel sets to execute wagon orders from the private sector. While PBILDT margin improved in FY22 as compared with FY21, it remained moderate in comparison with the capital employed which has led to subdued return indicators apart from the continued high finance cost.

The operations of the company remain highly working capital intensive, more so in the railway EPC segment. Though the average inventory period witnessed a decline from 113 days in FY21 to 90 days in FY22, the operating cycle elongated further from 242 days in FY21 to 262 days in FY22 with increase in average collection period and reduction in average creditors period. The company continues to have significant amount of unbilled debtors, a part of which is slow moving. However, the ratings take note of the company successfully raising equity of about Rs.165 crore in FY22 through the planned rights issue. A part of the unsecured loans already outstanding from the promoters (about Rs.104 crore) was converted into equity under the issue and a fresh infusion of about Rs.61 crore was made in the company. Furthermore, the company has raised a long-term corporate loan of Rs.100 crore in Q1FY23 to meet the long-term working capital requirement.

The ratings continue to remain constrained by its moderate debt coverage indicators, exposure to volatility in prices of raw material and its availability, tender based nature of business and competition in the various business segments.

Outlook: Negative

The outlook on the rating of TexRail continues to remain 'Negative' due to significant funds blocked in slow-moving receivables (including unbilled revenue) which has resulted in high debt levels that is expected to continue to exert pressure on the company's debt coverage indicators and ROCE.

The recent high value wagon orders received by the company are expected to have a shorter cash conversion cycle and the company is also reducing intake of its longer tenure rail EPC contracts which entail significant working capital. The outlook may be revised to 'Stable' if there is overall improvement in the average collection period with faster order execution and timely realisation of dues from the current contracts and recovery of past dues, collectively leading to reduction in debt levels and improvement in debt coverage indicators.

Rating Sensitivities

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

- Improvement in ROCE above 12% on a sustained basis with improvement in scale of operations and operating margin.
- Improvement in coverage indicators with Total Debt/PBILDT going below 3x.
- Efficient management of working capital requirement and improvement in operating cycle below 150 days on a sustained basis.

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

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

- Substantial decline in Total operating income (TOI) or decline in operating profitability (PBILDT margin < 7%) on a sustained basis.
- Increase in overall gearing ratio to beyond unity on a sustained basis.
- Inability to significantly improve its average collection period.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters with established presence in multiple businesses: TexRail is part of Mr. Saroj Kumar Poddar faction of the K. K. Birla group, which was subsequently rechristened as Adventz Group. Adventz is an established business group in the country having interest in fertilizers, chemicals, financial services, real estate and sugar. The promoters have significant business experience.

Long track record with diversified operations: TexRail, promoted by the late Dr K. K. Birla in 1939, made a modest beginning with textile machinery manufacturing. Later, it diversified to heavy engineering and subsequently to railway wagon manufacturing. The company has gradually diversified its operational presence into manufacturing commodity specific wagons for private parties, electric locomotive shells and sub-assemblies supplied to private parties. Over the years, it has added capacity for manufacturing hydro-mechanical equipment, heavy steel structures, process equipment and steel foundry products. TexRail is one of the largest players in the domestic wagon manufacturing industry in India.
Furthermore, it ventured into rail EPC for railway track laying, signaling and telecommunication through acquisition of Kalindee Rail Nirman (Engineers) Limited (KRNL) and railway electrical contracts for overhead lines, transformers and other equipment through Bright Power Projects (India) Private Limited (BPPPL), both of which are now merged with TexRail.
The company has strengthened its position as a total rail solutions provider with presence in wagons, locomotive shells, coaches, bridges, track laying, tele-communications, electrification, etc.
TexRail also has a JV, Touax Texmaco Railcar Leasing Private Limited (Touax) with Touax Rail of France, a leading lease finance company, having expertise in the business of leasing out freight cars (wagons) etc. The joint venture is for business of wagon leasing, pursuant to opening up of wagon leasing by the Railways under its wagon leasing scheme.
The company has also promoted Wabtec Texmaco Rail Private Limited as a JV with Wabtec Corporation of US, which is a global supplier of highly engineered components and systems for railways and specific industrial markets. Presence of such an established JV partner in the US market is expected to benefit TexRail in developing its export arm for its steel foundry unit.

Improvement in order book: TexRail received an order for 20,067 wagons from IR with an order value of Rs.6,450 crore in May 2022 which is to be executed over a period of 39 months. The orders of IR which are yet to be executed along with orders from private players in respect to wagons, other rolling stocks, bridges, structural, steel foundry, order book of KRNL (Rs.1,070 crore) and BPPPL (Rs.300 crore) has led to a healthy order book of around Rs.8,848 crore in May 2022. Further, there were orders of Rs.206 crore in other subsidiaries/JVs. The consolidated order book stood at Rs.9,054 crore in May 2022.
Given the very high working capital intensity in track laying orders due to dependence on other contractors to complete certain sections of the contract, the company has restricted intake of such orders in its KRNL division. The management has shifted its focus to contracts entailing smaller duration and lower requirements of working capital.

Rising demand for commodity specific wagons from private players as well as for export destinations: Apart from supplying wagons to IR, TexRail has been receiving large orders for commodity specific wagons from private sector companies. TexRail, with capacity for manufacturing these wagons, is well placed to take advantage of this growing demand.

Stable industry outlook: IR is the largest consumer of wagons in the country. The outlook for the wagon industry is mainly dependent on the demand from the same and the budgeted allocation for such outlays. The Government of India is expected to focus on improving the railway infrastructure and ensure faster development and completion of tracks, rail electrification, rolling stock manufacturing and delivery of passenger freight services. This would translate into stable demand outlook for the products and services offered by the company.

Key Rating Weaknesses
Continued low return ratios, though operating profitability improved in FY22: The TOI of the company witnessed a decline of about 4% y-o-y in FY22 compared with FY21 on account of the intermittent disruptions in operations due to the Covid-19 pandemic. Also, the shortage of industrial oxygen in Q1FY22 and wheel-sets in Q4FY22 affected the performance of the Heavy Engineering Division of the company.
Lower revenue along with continuing unprecedented hike in prices of steel and other commodities impacted the operating margins of the company specially in the steel foundry division. The company was not able to pass on the increased prices to its private customers, however, there is escalation clause in the Railway contracts where the company has been able to pass on the increased prices. PBILDT margin witnessed an improvement from 7.70% in FY21 to 9.13% in FY22 since the margins in FY21 were severely impacted due to the impact of operational disturbances caused by Covid-19 pandemic while the impact was relatively lesser in FY22. Nevertheless, the return indicators like ROCE and RONW continued to remain subdued with ROCE at about 7% and RONW at about 2.5% in FY22.

Moderate capital structure and debt coverage indicators: The overall debt of TexRail on a consolidated basis continued to remain high at Rs.930.82 crore as on March 31, 2022 (Rs.1,013.28 crore as on March 31, 2021) with significant working capital borrowings availed to finance the high debtors level. The company has also raised long-term working capital loan of Rs.100 crore in June 2022.
To meet the working capital requirement, the company raised Rs.164.5 crore through its planned rights issue in FY22 out of which Rs.104 crore was through conversion of unsecured loans infused earlier by the promoters. Accordingly, with increase in networth the overall gearing improved from 0.89x as on March 31, 2021 to 0.70x as on March 31, 2022.
Though Total Debt/GCA and Total Debt/PBILDT improved from 20.50x and 8.27x respectively as on March 31, 2021 to 13.32x and 6.62x respectively as on March 31, 2022, the same continues to remain high. PBILDT interest coverage ratio also remained moderate at 1.49x in FY22.

Elongated operating cycle: The nature of business of TexRail entails considerable dependence on working capital requirements both in the form of fund-based and non-fund-based borrowings. The operating cycle of the company elongated from 242 days in FY21 to 262 days in FY22 due to reduction in creditor days along with increase in receivable days mainly on account of lower sales and higher unbilled revenues. Its average collection period stood very elongated at 270 days during FY22. The average inventory days has, however, reduced from 113 days in FY21 to 90 days in FY22 on account of averaging effect of the inventory.
The debtors (including retention) reduced from Rs.611.49 crore as on March 31, 2021 to Rs.569.94 crore as on March 31, 2022. However, the unbilled debtors increased from Rs.601 crore as on March 31, 2021 to Rs.615.74 crore as on March 31, 2022. The unbilled debtors are high for the company on account of non-achievement of billing milestones in some of the projects due to dependence upon other contractors for completion of composite parts of the project. It also includes slow moving change-of-scope and price-escalation related debtors, part of which is under dispute. To fund these debtors, the company has high reliance on working capital debt.
Majority of the debtors of TexRail pertained to Indian Railways and reputed public/private sector entities where default risk is low subject to the bills not being disputed. Timely receipt of its slow-moving receivables along with quick resolution of the matters under arbitration will be crucial from liquidity and cash flow perspective of the company.

Exposure to volatility in prices of raw material as well as their timely availability: Earlier, IR used to provide free supply of major raw materials required by the companies to manufacture wagons. However, since 2017, the free supply has been discontinued and the wagon manufacturers have to rely on Research Design and Standards Organisation (RDSO) approved vendors for the supply of major raw materials such as steel, cartridge tapered roller bearings (CTRB), wheel sets, etc.
Further, the company is exposed to significant volatility in prices of raw materials, though the same is mitigated to an extent due to presence of escalation clause with respect to variation in input prices in the long-term contracts of IR and private parties (except orders from private parties to be executed in short-term, ie. 1-2 months). Further, in the rail EPC segment also, the company is exposed to raw material price volatility.

Risk associated with tender based business and competition: TexRail receives majority of its orders from IR and other government and semi-government entities as well as for exports based on tender. Hence, the revenue is dependent on the company's ability to successfully bid for these tenders. The company faces stiff competition from other established players in the wagon segment. Further, in the rail EPC segment also it is exposed to competition from larger players in the industry.

Liquidity: Adequate
The company has adequate liquidity with free cash and bank balance of Rs.58 crore as on March 31, 2022. The company has term debt repayment obligation of Rs.26.48 crore in FY23 against which the company is expected to generate sufficient cash accruals; albeit cash flow from operations would be dependent upon its working capital intensity level. The average fund-based limit utilisation stood at around 76% during the trailing 12 months ended March 2022. Further, the promoters have been supporting the liquidity through infusion of funds in the form of unsecured loans and ICDs as and when required. The company raised funds through rights issue amounting to Rs.164.50 crore in FY22 (out of which Rs.104 crore was already received by the company earlier in the form of ICD and was converted into equity). Further, the company has taken corporate loan of Rs.100 crore in June 2022 which shall provide further liquidity comfort to the company. The company does not have any debt laden capex plans in the near future and the internal generation is expected to be sufficient to meet the routine capex requirement.

Analytical approach: Consolidated
CARE Ratings has considered the consolidated analytical approach on account of operational and financial linkages of TexRail with its subsidiaries/JVs. The list of companies being consolidated is given in **Annexure - 5**
Applicable Criteria
[Criteria on assigning Outlook & Credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Consolidation]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Criteria for Short Term Instruments]
[Rating Methodology – Construction Sector]
[Rating Methodology-Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the Company

TexRail comprises businesses of heavy engineering and steel foundry demerged from Texmaco Limited in the year 2010 as per the Scheme of Arrangement approved by the Hon'ble High Court, Calcutta. With the said demerger, more than 95% of the business of Texmaco Limited became part of TexRail. It is a faction of the erstwhile K. K. Birla group and currently part of the Adventz group of Kolkata.

TexRail has an installed capacity of 10,000 Vehicular Units (VUs) of wagons which remains flexible in nature, 20,400 MTPA of structurals, 10,000 MTPA of bridges and 42,000 MTPA of steel castings. The product range of TexRail comprises of railway freight cars, hydro-mechanical equipment, industrial structurals, steel castings, loco shells, electrical mechanical unit (EMU), railway bridges and pressure vessels which is manufactured across four manufacturing facilities in West Bengal. Besides domestic market, TexRail also has presence in overseas markets.

TexRail had acquired equity stake in KRNL in FY14 and subsequently merged it with itself from February 11, 2017, with the appointed date being April 1, 2014. The business of KRNL for execution of railway projects involving track laying, signalling and telecommunication in India is running as the 'KRN' division under TexRail.

Further, in January 2016, TexRail had acquired 55% shareholding in BPPPL. Later, BPPPL and another subsidiary Texmaco Hi-Tech Private Ltd were merged into TexRail vide NCLT order received in April, 2019, with appointed date being April 1, 2017. The BPPPL division undertakes electrical contracts for erection, installation, commissioning and maintenance of overhead lines, transformers and other equipment for IR. It derives majority of its revenue from the Indian Railways.

Brief Consolidated Financials (Rs. crore)	FY20 (A)	FY21 (A)	FY22 (Abridged)
TOI	1840.67	1701.20	1631.33
PBILDT	164.09	131.00	148.95
PAT	-64.92	12.02	20.53
Overall gearing (times)	0.90	0.89	0.70
Interest coverage (times)	1.70	1.27	1.49

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Forward Contract		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	639.50	CARE A-; Negative
Non-fund-based - LT/ ST-BG/LC		-	-	-	1675.95	CARE A-; Negative / CARE A2
Fund-based - LT-Term Loan		-	-	May 2028	163.79	CARE A-; Negative
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	30.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. 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	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A2 (07-Jul-21)	1)CARE A2 (17-Sep-20) 2)CARE A2 (26-Jun-20)	1)CARE A1 (25-Mar-20) 2)CARE A1+ (04-Nov-19)
2	Fund-based - LT-Cash Credit	LT	639.50	CARE A-;	-	1)CARE A-; Negative	1)CARE A-; Stable	1)CARE A+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. 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
				Negative		(07-Jul-21)	(17-Sep-20) 2)CARE A-; Stable (26-Jun-20)	(25-Mar-20) 2)CARE A+; Stable (04-Nov-19)
3	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (04-Nov-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1675.95	CARE A-; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2 (07-Jul-21)	1)CARE A-; Stable / CARE A2 (17-Sep-20) 2)CARE A-; Stable / CARE A2 (26-Jun-20)	1)CARE A+; Stable / CARE A1 (25-Mar-20) 2)CARE A+; Stable / CARE A1+ (04-Nov-19)
5	Fund-based - LT-Term Loan	LT	163.79	CARE A-; Negative	-	1)CARE A-; Negative (07-Jul-21)	1)CARE A-; Stable (17-Sep-20) 2)CARE A-; Stable (26-Jun-20)	1)CARE A+; Stable (25-Mar-20) 2)CARE A+; Stable (04-Nov-19)
6	Fund-based - ST-Packing Credit in Foreign Currency	ST	30.00	CARE A2				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / 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/ ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Fund-based – ST-Packing Credit in Foreign Currency	Simple

Annexure-5: List of companies getting consolidated in TexRail (As on March 31, 2022)

Subsidiaries	Holding of TexRail	Country of origin
Belur Engineering Private Limited (Belur)	100%	India
Texmaco Transtrak Pvt. Ltd. (Transtrak)	51%	India
Texmaco Engineering Udyog Private Limited	100%	India
Texmaco Rail Electrification Limited	100%	India
Texmaco Rail Systems Private Limited	67.11%	India
Texmaco SA (Pty) Limited#	100%	South Africa
JVs		
Touax Texmaco Railcar Leasing Private Limited (Touax)	50%	India
Wabtec Texmaco Rail Private Limited (Wabtec)	40%	India
Associate		
Texmaco Defence Systems Private Limited (Texmaco Defence)	41%	India

#Texmaco (SA) Pty Limited based out of South Africa (100% subsidiary of TexRail) has been closed in FY22. There were no operations in FY21.

Annexure-6: Bank Lender Details
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information, please contact us at www.careedge.in