

**SAIL-RITES Bengal Wagon Industry Private Limited**

September 06, 2021

**Ratings**

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	85.18 (Reduced from 95.09)	CARE BBB; Stable (Triple B; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	20.00	CARE A3+ (A Three Plus )	Reaffirmed
<b>Total</b>	<b>105.18</b> <b>(Rs. One Hundred Five Crore and Eighteen Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The ratings assigned to SAIL-RITES Bengal Wagon Industry Private Ltd (SRBW IPL) 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 note the decline in operating income in FY21 (refers to the period April 01 to March 31) due to lower sales volume of wagons on account of covid-19 outbreak and shifting of orders from open wagons to covered wagons. The operation of company was also impacted in Q1F22 due to delays in getting necessary approval for production of covered wagons and the same get approval in July 2021 from Research Designs & Standards Organisation (RDSO).

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*

- 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 1.5x.

*Negative Factors*

- 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.
- Non-renewal of contract with the Indian Railways on expiry of 5 years from the start of operations.
- 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:** SRBW IPL, 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, with exit clause after five years:** On November 24, 2015, Ministry of Railways and SRBW IPL 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. Further, the operation of company was also impacted in Q1F22 due to delays in getting necessary approval for production of covered wagons and the same get approval in July 2021 from Research Designs & Standards Organisation (RDSO). The company is continuing its 5th order for rehabilitation of 300 wagons worth Rs.35.56 crore received in November, 2020. The current order book provides revenue visibility to the company and ramping up of production to meet delivery schedule shall remain crucial.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

However, the contract has exit clause after five years by the Indian Railways (ending in 2021). Renewal of contract after expiry of five years for a further period of five years and ability to garner orders from other clients as well is a key rating sensitivity. SRBWIPL is exploring the opportunities to sell wagons to private consumers, which will assist the company in reducing its dependence on Indian Railway.

**Declined in turnover albeit PBILDT margin improved in FY21:** The total operating income declined by around 40% in FY21 due to lower sales volume of wagons on account of covid-19 outbreak and shifting of orders from open wagons to covered wagons.

However, operating profit margins have improved to 13.63% in FY21 due to benefit of low-cost raw material available with the company and escalation received as per the increase in steel prices during the year. PAT declined significantly due to higher deferred tax liability provided (including for earlier years as indicated by the company). The company reported GCA of Rs.16.21 crore in FY21 vis-à-vis scheduled term debt repayment obligation of Rs.7.20 crore and promoter loan repayment of Rs.5.60 crore. The PBILDT interest coverage ratio also improved to 4.56x in FY21 as against to 3.49x in FY20 due to sharp reduction in interest cost and relatively lower declined in PBILDT level in FY21.

**Comfortable capital structure:** The overall gearing of the company stood comfortable at 0.75x as on March 31, 2021 as against 1.51x as on March 31, 2020. The total debt reduced due to lower utilization of working capital borrowings with reduction in inventory and debtors' level. TDGCA also improved to 2.76x as on March 31, 2021 as against 4.02x as on March 31, 2020 on account reduction in total debt.

**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 as per the tenders. 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 1.02x as on March 31, 2021. The operating cycle increased to 89 days in FY21 as against 61 days in FY20. This is mainly on account of increase in collection period and inventory period.

#### Liquidity: Adequate

The company has adequate liquidity characterised by sufficient cushion in accruals vis-à-vis debt repayment obligation. The average fund based working capital utilisation remained low at around 28% for the 12 months ending April 2021. 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

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[Care's Policy on Default Recognition](#)

[Care's Methodology for Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of Non-Financial sector](#)

### 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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	263.58	156.99
PBILDT	29.52	21.40
PAT	15.53	2.48
Overall gearing (times)	1.51	0.70
Interest coverage (times)	3.49	4.56

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

**Bank Lender Details:** Annexure 5

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2023	21.18	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	55.00	CARE BBB; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	9.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	20.00	CARE A3+

**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) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	21.18	CARE BBB; Stable	-	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (09-Oct-19)	1)CARE BBB; Stable (27-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	55.00	CARE BBB; Stable	-	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (09-Oct-19)	1)CARE BBB; Stable (27-Sep-18)
3.	Non-fund-based - LT-Bank Guarantees	LT	9.00	CARE BBB; Stable	-	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (09-Oct-19)	1)CARE BBB; Stable (27-Sep-18)
4.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A3+	-	1)CARE A3+ (05-Oct-20)	1)CARE A3+ (09-Oct-19)	-

**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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

**Annexure 5: Bank Lender Details**

[Click here to view Bank Lender Details](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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