Texmaco Rail & Engineering Limited

March 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	962.98 (Enhanced from 803.29)	CARE BBB+; Stable	Revised from CARE A-; Negative
Long Term / Short Term Bank Facilities	1,795.50 (Enhanced from 1,675.95)	CARE BBB+; Stable / CARE A3+	Revised from CARE A-; Negative / CARE A2
Short Term Bank Facilities	30.00	CARE A3+	Revised from CARE A2

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Texmaco Rail and Engineering Limited (TexRail) factors in the continued increase in receivables (including unbilled revenue) and debt level as on December 31, 2022, amidst subdued profitability, which has led to moderation in debt coverage indicators. The company continues to have significant funds blocked in slow-moving receivables (including unbilled revenue) mainly in the rail EPC division. The operating profitability margin declined in 9MFY23 (FY refers to the period April 1 to March 31) compared with 9MFY22 on account of significant losses incurred by the heavy engineering division in Q1FY23 due to non-availability of wheel sets, increase in input cost and lower margin orders executed. Going forward, while the margins are expected to remain moderate due to the high competitive intensity, the working capital intensity is expected to reduce with reduction in the EPC business and expected gradual recovery from long pending debtors. The ratings remain constrained by the exposure to volatility in prices of raw material and its availability and tender-based nature of business.

The ratings continue to draw strength from its experienced promoters, established position in the domestic railway wagon industry, diversified revenue profile with presence across various segments of railway infrastructure and healthy order book position. The ratings also factor in the fund support provided by the promoters in the form of unsecured loans in 9MFY23 to meet working capital requirements.

The ratings take note of the approval by the Board of TexRail, subject to approval of various stakeholders, lenders, etc., to transfer the whole or substantially the whole of rail EPC business (Kalindee division and Bright Power division) by way of slump sale to two separate wholly owned subsidiaries of the company. The effective date of the transaction is expected to be April 01, 2023.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in return on capital employed (ROCE) above 10% on a sustained basis with improvement in scale of operations and operating margin.
- Improvement in coverage indicators with Total Debt/PBILDT going below 4x.
- Efficient management of working capital requirement and significant improvement in operating cycle.

Negative factors

- Substantial decline in total operating income (TOI) or decline in operating profitability (PBILDT margin < 6%) on a sustained basis.
- Increase in overall gearing ratio beyond 1.25x on a sustained basis.
- Further deterioration in average collection period.

Analytical approach: Consolidated

CARE Ratings Limited 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 – 6**.

Outlook: Stable

The stable outlook reflects that the business risk profile is expected to remain steady supported by revenue visibility arising from the healthy order book position. The company is expected to continue to derive support from the established promoter

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

group. Also, its working capital intensity is expected to reduce with lower EPC business and gradual realisation of past dues.

Key strengths

Experienced promoters with established presence in multiple businesses: TexRail is a 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 and demonstrated support to TexRail by infusion of funds as equity and unsecured loans as and when required. The support is expected to continue going forward as well.

Diversified operations: TexRail has long presence in railway wagon manufacturing and has gradually diversified into 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.
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 have been 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.

Healthy order book position: TexRail had a healthy order book position of ₹9,033 crore as on January 01, 2023. The order book includes orders of Indian Railways (₹6061 crore) along with orders from private players for wagons, other rolling stocks, bridges, structural, steel foundry, order book of KRNL division (₹790 crore) and BPPPL division (₹450 crore). Furthermore, there were orders of ₹225 crore in other subsidiaries/JVs.
Given the very high working capital intensity in track laying orders, 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 railways, 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: Railways 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 focusing 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 Weaknesses

Decline in profitability margins in 9MFY23: In 9MFY23, the TOI witnessed a growth of 20% y-o-y on account of execution of wagon orders received in May 2022 along with increase in revenue from steel foundry. However, the PBILDT margin declined from 10.13% in 9MFY22 to 7.18% in 9MFY23 mainly on account of significant losses incurred by the heavy engineering division in Q1FY23 due to non-availability of wheel sets for private party orders which formed majority of the order book, increase in input costs and lower margin in the new wagon orders.
The company has started importing wheel sets for private parties and execution has improved. The execution of orders from the railways has also gathered pace. Accordingly, the margins are expected to improve going forward, though continuing to remain moderate.

Increase in debt level and moderation in debt coverage indicators: The consolidated debt of TexRail increased from ₹930.82 crore as on March 31, 2022 to ₹1270.60 crore as on December 31, 2022 with increase in working capital borrowings to fund high debtors levels, term loan (for capex relating to debottlenecking in its heavy engineering division/steel foundry), acceptances (due to increased import of wheel sets for meeting private party orders) and mobilisation advances. The unsecured loans amounting to ₹105.79 crore infused by the promoters till FY22 have been treated as quasi equity as the same are subordinated to bank debt.

With increase in total debt, Total Debt/GCA and Total Debt/PBILDT also witnessed moderation as on December 31, 2022, compared with March 31, 2022. PBILDT interest coverage ratio deteriorated to 1.19x in 9MFY23 from 1.49x in FY22.

Increase in receivables: 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 debtors (including retention) increased from ₹570 crore as on March 31, 2022 to ₹689 crore as on December 31, 2022. The increase in debtors mainly relates to heavy engineering division wherein the company is executing the wagon orders for railways.
The unbilled debtors, mainly pertaining to KRNL and BPPPL division, also increased from ₹616 crore as on March 31, 2022 to ₹684 crore as on December 31, 2022 despite lower EPC sales during 9MFY23. As articulated by the management, gradual recovery from stuck debtors is expected to commence from FY24.
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: 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.
Furthermore, 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 railways and private parties (except orders from private parties to be executed in short-term, ie. 1-2 months). Furthermore, 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 Indian Railways 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. Furthermore, in the rail EPC segment also it is exposed to competition from larger players in the industry.

Liquidity: Adequate
The company has adequate liquidity profile with a buffer in its working capital limits in the range of around ₹30-₹40 crore. The company has debt repayment obligation of ₹26 crore in FY23 (out of which ₹17 crore has already been repaid till December 2022) against which the company is expected to generate sufficient cash accruals. The average fund-based limit utilisation stood at around 83% during the last 12 months ended December 2022. Furthermore, the promoters have been supporting liquidity through infusion of funds in the form of unsecured loans as and when required. In 9MFY23, ₹53 crore was infused in the form of unsecured loans. Furthermore, the company has taken corporate loan of ₹100 crore in June 2022 and ₹75 crore in August 2022 to meet its capex requirements which shall support liquidity. The company has capex plan of ₹100 crore in FY23-FY24 for which debt is already tied up.

Environment, social, and governance (ESG) risks

The company undertakes various steps to minimize wastes, conserve resources and undertakes continuous improvement of processes to protect the environment. The company spent ₹0.08 crore for various Corporate Social Responsibility (CSR) projects and initiatives in FY22. The board of directors comprises of eleven members out of which six are independent directors.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Construction
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Manufacturing	Railway Wagons

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, signaling and telecommunication in India is running as the 'KRN' division under TexRail.
Furthermore, 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 Indian Railways.

Brief Consolidated Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	1701.20	1631.33	1408.00
PBILDT	131.00	148.95	101.10
PAT	12.02	20.53	7.53
Overall gearing (times)	0.89	0.70	NA
Interest coverage (times)	1.27	1.49	1.19

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	743.50	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	May 2028	219.48	CARE BBB+; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	30.00	CARE A3+
Non-fund-based - LT/ ST-BG/LC		-	-	-	1795.50	CARE BBB+; Stable / 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	Non-fund-based - ST-Forward Contract	ST	-	-	1)Withdrawn (05-Jul-22)	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	743.50	CARE BBB+; Stable	1)CARE A-; Negative (05-Jul-22)	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)
3	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (04-Nov-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1795.50	CARE BBB+; Stable / CARE A3+	1)CARE A-; Negative / CARE A2 (05-Jul-22)	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	219.48	CARE BBB+; Stable	1)CARE A-; Negative (05-Jul-22)	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 A3+	1)CARE A2 (05-Jul-22)	-	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Packing Credit in Foreign Currency	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: 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.

Note on the 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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About us:

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