Texmaco Rail & Engineering Limited

January 05, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	922.85 (Reduced from 955.81)	CARE BBB+ (RWP)	Placed on Rating Watch with Positive Implications
Long-term / Short-term bank facilities	1,920.00 (Reduced from 1,945.50)	CARE BBB+ / CARE A2 (RWP)	Revised from CARE BBB+; Stable / CARE A3+; Placed on Rating Watch with Positive Implications
Short-term bank facilities	30.00	CARE A2 (RWP)	Revised from CARE A3+; Placed on Rating Watch with Positive Implications

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the short-term rating assigned to the bank facilities of Texmaco Rail & Engineering Limited (TexRail) takes into account the improved liquidity profile post sizeable equity infusion in October 2023 and November 2023 through preferential allotment (₹50 crore) and QIP issue (₹750 crore) respectively. Out of the issue proceeds, TexRail has utilised ₹190 crore to retire its high-cost debt and ₹100 crore has been utilised for its working capital requirement while the remaining amount being parked in liquid mutual funds.

CARE Ratings Limited (CARE Ratings) has also placed the ratings assigned to the bank facilities of TexRail on 'Rating watch with Positive Implications'. The rating action follows the proposed demerger of "Infra-Rail & Green Energy" division of TexRail with appointed date of April 01, 2024. The division includes business of execution of projects in the area of hydro mechanical works, bridge & structural, track laying, signaling & telecommunication etc. The division continues to have significant funds blocked in slow-moving receivables (including unbilled revenue). The Infra-Rail & Green Energy division is expected to be transferred into a separate listed entity and the remaining businesses of manufacturing wagons, steel foundry and electrical divisions, where it has large orders from Indian Railways, are expected to remain in TexRail. The Company is in the process of applying for regulatory approvals including Securities and Exchange Board of India (SEBI) and National Company Law Tribunal (NCLT). CARE Ratings would continue to monitor the developments in this regard and will take a view on the ratings once the demerger is completed and impact of the same on the business and financial risk profile of TexRail is clear.

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 significant ramp up of order execution over the last few quarters leading to substantial growth in Total operating income (TOI) during FY23 (refers to the period April 01 to March 31) and H1FY24. The profitability margin was, however, impacted during Q1FY24 due to provision made against short closing of 2nd tranche (3,345 wagons) of the wagon order received in May 2022 due to time required for development of prototype for closed wagon. Nevertheless, the financial performance witnessed improvement in Q2FY24 and is expected to sustain the same in the medium term in view of significant orders flow from Indian Railways where the Government of India (GoI) has major thrust in improving railway infrastructure. Growth in TOI has resulted in improvement in average collection period during H1FY24; though the same remained on the higher side due to continued high unbilled revenue.

The ratings continue to remain constrained by continued high debt levels. The company continues to have significant funds blocked in slow-moving receivables (including unbilled revenue) mainly in the "Infra-Rail & Green Energy" division leading to low return indicators. The ratings also factor in the exposure to volatility in prices of raw material and its availability and tender-based nature of business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in 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 improvement in operating cycle.

Negative factors

- Substantial decline in 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.

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

- Further deterioration in average collection period.

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 – 6**.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with established presence in multiple businesses: TexRail is a part of 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 interests 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 (KRN) and railway electrical contracts for overhead lines, transformers and other equipment through Bright Power Projects (India) Private Limited (BPPPL), both of which had 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 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.
In April 2023, TexRail has entered into a 50:50 joint venture with Nymwag C.S. a company registered in Czech Republic for setting up a wagon manufacturing plant in Sodepur, West Bengal. The plant is expected to manufacture wagons and wagon components for both domestic and export markets.

Healthy order book position in view of GoI thrust on railway infrastructure: TexRail had a healthy order book position of ₹7,672 crore as on October 31, 2023. The order book includes orders of Indian Railways (₹3,987 crore) along with orders from private players for wagons, other rolling stocks, bridges, structural, steel foundry, order book of KRN division (₹948 crore) and BPPPL division (₹820 crore). Furthermore, there were orders of ₹510 crore in other subsidiaries/JVs. The company received further order for 3,400 BOXNS wagons valuing ₹1,374 crore from the Ministry of Railways as on December 14, 2023.
Given the high working capital intensity in track laying orders, the company has restricted in-take of such orders in its KRN division. The management has shifted its focus to contracts entailing smaller duration and lower requirements of working capital.

Strong industry demand led by GoI thrust on railway infrastructure: 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. The budgetary allocation towards railway projects have been increased to ₹2.4 lakh crore for 2023-24. This has resulted in the recent influx of orders from the GoI for freight wagons. Apart from supplying wagons to railways, TexRail has been receiving large orders for commodity specific wagons from private sector companies. TexRail, with large capacity for manufacturing these wagons, is well placed to take advantage of this growing demand.

Significant growth in TOI in FY23 and H1FY24 with improved profitability margin in H1FY24: In FY23, the TOI witnessed a growth of 39% 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 9.13% in FY22 to 7.06% in FY23 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. However, since Q2FY23, the company has started importing wheel sets for private parties and execution has improved, however acceptances have also increased as a result. The execution of orders from the railways has also gathered pace. Accordingly, the performance has improved since Q2FY23, the margins however continued to remain moderate in FY23.

In H1FY24, the TOI witnessed significant growth of 87% y-o-y on account of increased order execution, which led to improvement in profitability margins y-o-y. Accordingly, the margins are expected to improve going forward, though continuing to remain moderate.
The company had to take provision of ₹38 crore in terms of the notice of recovery received from Indian Railways against short closing of 2nd tranche (3,345 wagons) of the wagon order received in May 2022. The same was due to time required for development of prototype for closed wagon. The order was revised from 20,067 wagons to 16,722 wagons. The company as a matter of prudent accounting policy had made the provision in books for ₹38 crore in Q1FY24. However, the company has taken up the matter with Railway Board, and is confident to recover/ realize the said amount.

Liquidity: Adequate

The company received equity infusion in Q3FY24 (₹50 crore through preferential allotment and QIP of ₹750 crore with net proceeds of ₹733 crore). Out of the equity infusion, the company has utilised around ₹290 crore for debt reduction and working capital requirements while it is left with the rest as balance liquidity as on December 28, 2023. The company proposes to utilise ₹100 crore for capex, ₹251 crore for its debt reduction, ₹300 crore for working capital requirements and rest ₹133 crore for General corporate purposes out of the total issue proceed of ₹783 crore (net).
The average fund-based limit utilization stood at around 82% during the last 12 months ended October 2023. Furthermore, the company does not have any debt laden capex plans in the near future, with the capex to be largely funded from equity proceeds.

Key weaknesses

High debt level and moderate debt coverage indicators: The consolidated debt of TexRail increased from ₹930.82 crore as on March 31, 20222 to ₹1511.43 crore as on March 31, 2023 and further to ₹1693.99 crore as on September 30, 2023 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. Its total debt/ PBILDT had consequently gone up from 6.25 times during FY22 to 9.47 times as on March 31, 2023. However, post equity infusion in Q3FY24, the company has paid off its high cost ICDs and reduced its working capital utilisation and accordingly, its total debt /PBILDT is expected to improve to around 5 times as on March 31, 2024 which is although at a high level on the back of significant delay in realisation of its stuck / unbilled receivables.

Elongated receivables leading to weak return indicators: 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 ₹689 crore as on December 31, 2022 to ₹803 crore as on September 30, 2023. The increase in debtors mainly relates to the 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 ₹684 crore as on December 31, 2022 to ₹712 crore as on September 30, 2023. As articulated by the management, gradual recovery from stuck debtors has commenced and they expect the release of certain funds by Q4FY24/ Q1FY25, with the rest to be received by FY26 in a phased manner.
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. On the back of its stuck receivables, its return indicators marked by ROCE stood very low at 6.42% during FY23 vis-à-vis 6.97% during FY22. On the back of the expected improvement in its profitability in FY24, its ROCE is expected to improve to around 9-10%, which is although on the lower side.

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, i.e. 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.

Environmental, 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 ₹0.21 crore for various Corporate Social Responsibility (CSR) projects and initiatives in FY23. The board of directors comprises of twelve members out of which seven 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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial manufacturing	Railway wagons

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 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 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.
The Board of TexRail has approved, subject to approval of various stakeholders, lenders, etc., the demerger of "Infra-Rail & Energy" division (KRN, hydro mechanical and bridge division) into Belgharia Engineering Udyog Pvt Ltd (WOS). The appointed date of the transaction is expected to be April 01, 2024.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	1631.33	2261.28	1461.87
PBILDT	148.95	159.68	97.40
PAT	20.53	25.80	28.74
Overall gearing (times)	0.70	1.12	1.22
Interest coverage (times)	1.49	1.37	1.37

A: Audited UA: Unaudited; 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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	690.00	CARE BBB+ (RWP)
Fund-based - LT-Term loan		-	-	May 2028	232.85	CARE BBB+ (RWP)
Fund-based - ST-Packing credit in foreign currency		-	-	-	30.00	CARE A2 (RWP)
Non-fund-based - LT/ ST-BG/LC		-	-	-	1920.00	CARE BBB+ / CARE A2 (RWP)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
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)
2	Fund-based - LT-Cash credit	LT	690.00	CARE BBB+ (RWP)	1)CARE BBB+; Stable (11-May-23)	1)CARE BBB+; Stable (28-Mar-23) 2)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)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1920.00	CARE BBB+ / CARE A2 (RWP)	1)CARE BBB+; Stable / CARE A3+ (11-May-23)	1)CARE BBB+; Stable / CARE A3+ (28-Mar-23) 2)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)
4	Fund-based - LT-Term loan	LT	232.85	CARE BBB+ (RWP)	1)CARE BBB+; Stable (11-May-23)	1)CARE BBB+; Stable (28-Mar-23)	1)CARE A-; Negative (07-Jul-21)	1)CARE A-; Stable (17-Sep-20)

						2)CARE A-; Negative (05-Jul-22)		2)CARE A-; Stable (26-Jun-20)
5	Fund-based - ST-Packing credit in Foreign currency	ST	30.00	CARE A2 (RWP)	1)CARE A3+ (11-May-23)	1)CARE A3+ (28-Mar-23) 2)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

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
Belgharia Engineering Udyog Private Limited w.e.f. April 14, 2023	100%	India
Texmaco Rail Electrification Limited	100%	India
Texmaco Rail Systems Private Limited	51%	India
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

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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