Texmaco Rail & Engineering Limited

August 05, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	838.94	CARE A- (RWD)	Revision in rating watch from 'Rating Watch with Positive Implications' to 'Rating Watch with Developing Implications'
Long Term / Short Term Bank Facilities	2,040.00	CARE A- / CARE A2+ (RWD)	Revision in rating watch from 'Rating Watch with Positive Implications' to 'Rating Watch with Developing Implications'
Short Term Bank Facilities	30.00	CARE A2+ (RWD)	Revision in rating watch from 'Rating Watch with Positive Implications' to 'Rating Watch with Developing Implications'

Details of facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the credit watch on the ratings assigned to the bank facilities of Texmaco Rail & Engineering Limited (TexRail) from 'Rating Watch with Positive Implications' (RWP) to 'Rating Watch with Developing Implications' (RWD). The rating action follows TexRail's announcement of entering into a definitive agreement on July 25, 2024, for acquisition of 100 % of the share capital of Jindal Rail Infrastructure Limited (JRIL) on a fully diluted basis, for an aggregate consideration of ₹615 crore (subject to closing adjustments).

The transaction is expected to be funded out of proceeds from Qualified Institutional Placement (QIP)/ Preferential issue and surplus liquidity available with the Company.

The Company is currently in the process of demerging its "Infra-Rail & Green Energy" division which 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) and has weak financial performance due to legacy contracts. The assets and liabilities of 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.

CARE Ratings will continue to monitor the developments regarding both the above events and will take a view on the ratings once there is a fair amount of clarity w.r.to various aspects of acquisition and demerger and impact of the same on the business and financial risk profile of TexRail is clear.

The ratings factor in the significant ramp up of order execution over the last few quarters leading to substantial growth in total operating income (TOI) and profitability during FY24 (refers to the period April 01 to March 31). The financial performance witnessed improvement with increased wagon sales 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.

The ratings also factor in the improved liquidity profile post sizeable equity infusion in FY24 through preferential allotment and QIP issue (aggregating to ₹1,050 crore). The company also issued convertible warrants of ₹150 crore in April 2024 (out of which ₹37.50 crore has been received in April 2024). Out of the issue proceeds, as on March 31, 2024, TexRail has utilised ₹251 crore to retire its high-cost debt and ₹250 crore for its working capital requirement and ₹39 crore towards general corporate purposes. In April 2024, it utilized further ₹176 crore for debt repayments from QIP proceeds and internal accruals while the remaining amount is parked in liquid mutual funds to be utilized towards working capital, capital expenditure and general corporate purposes.

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. Growth in TOI has resulted in improvement in average collection period during FY24; though the same remained on the higher side due to continued high unbilled revenue under Infra-Rail & Green Energy division.

The ratings continue to remain constrained by continued high debt levels, however as the company has repaid some of its debt in FY24, overall debt level decreased y-o-y. 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.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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 3.5x.
- Efficient management of working capital requirement and improvement in operating cycle.

Negative factors

- Substantial decline in TOI or decline in operating profitability (PBILDT margin < 7%) 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 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 standing 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 two JV, first being 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. The company has also promoted Wabtec Texmaco Rail Pvt Ltd as a JV with Wabtec Corporation of US, which is global supplier of highly engineered components and systems for railways and specific industrial markets.

In April 2023, TexRail has entered into a 51:49 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.

In June 2024, it has entered into an SPA and shareholders' agreement to acquire 51% stake in Saira Asia Interiors Private Limited, the company engaged in designing metro interior products. The acquisition positions Texmaco as a comprehensive mechanical partner in the commuter mobility segment, offering solutions for both car body shells and interiors, and addresses the evolving demands of the Railways sector.

In July 2024, TexRail board has approved the acquisition of all of the rights, title and interest in all of the securities of JRIL, the company engaged in the same line of business of manufacturing railway freight wagons, selling mostly to private players. The acquisition marks major steps towards opening opportunities for new product lines for the company including other rolling stocks, enhanced geographical reach, along with opportunities for enhanced exports and expanding the company's presence among private players.

Healthy order book position in view of GoI thrust on railway infrastructure: TexRail had a healthy order book position of ₹7,878 crore as on April 01, 2024. The order book includes orders of Indian Railways (₹4,376 crore) along with orders from private players for wagons, other rolling stocks, bridges, structural, steel foundry, order book of KRN division (₹694 crore) and BPPPL division (₹1,132 crore). Furthermore, there were orders of ₹510 crore in other subsidiaries/JVs.
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 ₹2.55 lakh crore for 2024-25 from ₹2.40 lakh crore in the previous year. This has resulted in the recent influx of orders from 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 FY24 with improved profitability margins: In FY24, the TOI witnessed a growth of 55% y-o-y on account of increased execution of orders along with an increase in order book with Government's thrust on railways infrastructure and an increase in sales volume of steel foundry. The PBILDT margin of the company also improved because of the significant increase in sales revenue despite increase in cost of materials in the foundry division which could not be passed on fully and lower margin in the new wagon orders. The company has also started importing wheel sets for private parties and execution has improved. The execution of orders from Indian Railways has also gathered pace.

Liquidity: Adequate

The company received equity infusion in FY24 (₹50 crore through preferential allotment and QIP issue of ₹1,000 crore with net proceeds of ₹979 crore). Out of the equity infusion, the company has utilised around ₹531 crore for debt reduction and working capital requirements while it is left with the rest as balance liquidity as on March 31, 2024. In April 2024, it prepaid ₹176 crore debt out of the QIP proceeds and internal accruals. The company proposes to utilise balance funds for capex, working capital requirements and General corporate purposes.
The average fund-based working capital limit utilization stood at around 75% during the last 12 months ended May 2024. 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. The board has approved the acquisition of JRIL, which is planned to be funded out of issue proceeds from QIP/ Preferential issue and internal accruals. The acquisition is expected to lead to moderation in the liquidity position from the current high level.

Key weaknesses
High debt level and moderate debt coverage indicators; improvement witnessed in FY24: The consolidated debt of TexRail decreased from ₹1,511.43 crore as on March 31, 2023 to ₹1,101.97 crore as on March 31, 2024 following the reduction of working capital utilisation and repayment of its short term loans, intercorporate borrowings and unsecured loans from the QIP proceeds. However, there was an increase in the term loan (for capex relating to debottlenecking in its heavy engineering division/steel foundry), and acceptances (due to increased import of wheel sets for meeting private party orders). Its total debt/ PBILDT has consequently improved from 10.39 times as on March 31, 2023 to 4.13 times as on March 31, 2024 which although continues to remain 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 ₹785 crore as on March 31, 2023 to ₹882 crore as on March 31, 2024. The increase in debtors mainly relates to the freight car division wherein the company is executing the wagon orders for railways.
The unbilled debtors, mainly pertaining to Infra – Rail & Green Energy (KRNL) and Infra – Electrical (BPPPL) division, also increased from ₹697 crore as on March 31, 2023 to ₹709 crore as on March 31, 2024. As articulated by the management, the company is in the process for filing various claims which were not filed earlier and has taken consultations for the same. Further, contrary to the expectation of recovering part of unbilled revenue by June 2024, the company has not been able to recover the same. Now, the same is expected to be recovered from FY26 onwards.

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. Its return indicators marked by ROCE improved to 10.54% during FY24 vis-à-vis 6.42% during FY23, which is although on the lower side on the back of its stuck receivables, despite the improvement in its profitability in FY24.

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 waste, conserve resources and undertakes continuous improvement of processes to protect the environment. It is working on rainwater harvesting and is moving on to green power for operations in its factories (Urla foundry already moved into green power). The company has on-going CSR projects in health and education sectors, with around 1,100 beneficiaries. The board of directors comprises of thirteen members out of which seven are independent directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation
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 'Infra – Rail & Green Energy' 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. It is running as the Infra - Electrical division which 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)	FY23 (A)	FY24 (Abridged)
Total operating income	2247.01	3503.78
PBILDT	145.41	266.52
PAT	25.80	112.98
Overall gearing (times)	1.12	0.44
Interest coverage (times)	1.25	2.01

A: Audited; 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 facilities 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		-	-	-	708.50	CARE A- (RWD)
Fund-based - LT-Term Loan		-	-	September 2029	130.44	CARE A- (RWD)
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	30.00	CARE A2+ (RWD)
Non-fund-based - LT/ ST-BG/LC		-	-	-	2040.00	CARE A- / CARE A2+ (RWD)

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 2024-2025	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
1	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (05-Jul-22)	1)CARE A2 (07-Jul-21)
2	Fund-based - LT-Cash Credit	LT	708.50	CARE A- (RWD)	1)CARE A- (RWP) (05-Jul-24)	1)CARE BBB+ (RWP) (26-Mar-24) 2)CARE BBB+ (RWP) (05-Jan-24) 3)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)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	2040.00	CARE A- / CARE A2+ (RWD)	1)CARE A- / CARE A2+ (RWP) (05-Jul-24)	1)CARE BBB+ / CARE A2 (RWP) (26-Mar-24) 2)CARE BBB+ / CARE A2 (RWP) (05-Jan-24) 3)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)
4	Fund-based - LT-Term Loan	LT	130.44	CARE A- (RWD)	1)CARE A- (RWP) (05-Jul-24)	1)CARE BBB+ (RWP) (26-Mar-24) 2)CARE BBB+ (RWP) (05-Jan-24) 3)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)
5	Fund-based - ST-Packing Credit in Foreign Currency	ST	30.00	CARE A2+ (RWD)	1)CARE A2+ (RWP) (05-Jul-24)	1)CARE A2 (RWP) (26-Mar-24) 2)CARE A2 (RWP) (05-Jan-24)	1)CARE A3+ (28-Mar-23) 2)CARE A2 (05-Jul-22)	-

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						3)CARE A3+ (11-May-23)		

LT - Long Term; ST – Short Term LT/ST – 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 all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Belur Engineering Private Limited (Belur)	Full	Subsidiary
2	Texmaco Transtrak Pvt. Ltd. (Transtrak)	Full	Subsidiary
3	Texmaco Engineering Udyog Private Limited	Full	Subsidiary
4	Belgharia Engineering Udyog Private Limited w.e.f. April 14, 2023	Full	Subsidiary
5	Texmaco Rail Electrification Limited	Full	Subsidiary
6	Texmaco Rail Systems Private Limited	Full	Subsidiary
7	Touax Texmaco Railcar Leasing Private Limited (Touax)	Proportionate	Joint Venture
8	Wabtec Texmaco Rail Private Limited (Wabtec)	Proportionate	Joint Venture
9	Texmaco Defence Systems Private Limited (Texmaco Defence)	Proportionate	Associate

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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