# Madhepura Electric Locomotive Private Limited

February 21, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 110.00 | CARE AA-; Stable | Revised from CARE A+; Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The revision in the rating of the bank facility of Madhepura Electric Locomotive Private Limited (MELPL) takes into account timely supply of locomotives as per the delivery schedule, timely realisation of receivables, repayment of entire external term debt and subordinated unsecured loans availed from the group company along with maintaining healthy liquidity position. The rating is further underpinned by strong sponsorship with Alstom (through Alstom Manufacturing India Private Limited [AMIPL]) holding 74% and balance 26% by government of India (GOI), importance of the project to both Alstom and Ministry of Railways (MOR) and assured offtake arrangement entered into between Alstom and MOR for entire supply of locomotives with adequate compensation clause for lower off-take by MOR and established track record of Alstom in transport segment with proven technology capabilities. The rating is, however, constrained by exposure to supply risk of raw materials and susceptibility of profitability margins toward raw material price movements to the extent not covered under pass thru arrangements under contract price adjustments (CPA) provided in the procurement-cum-maintenance agreement (PCMA).

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Continuing supply of locomotives, consistently over a period of time, as per the supply schedule along with timely realisation of receivables.
- Maintaining surplus liquidity at least to the extent of ₹100 crore to ₹125 crore within the company.

**Negative factors**

- Delay in supplying of locomotives as per the delivery schedule impacting adversely on the financial profile of the company.
- Delay in the receipt of payment from Indian Railways (IR) resulting in stretch in liquidity profile of the company.

**Analytical approach**: Standalone; factoring support from ultimate parent—Alstom France.

## Key strengths

**Strong sponsors in the form of Alstom and GOI:** MELPL is promoted by the Alstom Group (holding 74%) and GOI (holding 26%). Incorporated in 1992 and headquartered in rue Albert-Dhalenne, Saint-Ouen-Seine, France, Alstom SA is a flagship entity of the Group (renamed in 1998) that is engaged in designs, supplies and services of various rail transport products and systems in France and internationally. The Group offers trains, signalling products, including rail control systems, designs and installs solutions for track laying, and supplies electromechanical equipment.

**Importance of the project to both Alstom and MOR and assured offtake agreement with MOR for supply and maintenance of locomotives:** The project is the first ever FDI project in the rail sector and carries a significant importance under the 'Make in India' plan of GOI. The project involved investment of more than ₹1,200 crore with 795 out of 800 locos to be manufactured indigenously over the period of 11 years. The project is also in line with the railway's plan for complete electrification of railways by 2024. The locos are capable of running at 100-120 kmph (peak speed with average of 60-70 kmph) as against present average speed of freight trains of 25-30 kmph. These locomotives equipped with state-of-the-art insulated gate bipolar transistors (IGBT; utilised in traction system of electric rail vehicles)-based propulsion technology, is expected to lead to considerable savings in energy consumption.

**Timely delivery of locomotives aligning with estimates as per PCMA contract:** MELPL has been supplying the locos as per the delivery schedule. As per the supply programme, the company was scheduled to deliver 60 locos in FY21 with total supply of 100 locomotives by March 31, 2021. However, MOR has granted timeline extension of 168 days on supply schedule to the company on account of delay in approval as well as COVID-19. As per the revised schedule, the company was expected to supply

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

a total of 73 locos by March 2021 and a total of 200 locos by March 2022. The company supplied a total of 90 locos by the end of FY21. During FY22, the company supplied a total of 110 locos, with total cumulative supply reaching to 200 locos by March 2022. Furthermore, during 9MFY23, the company has supplied 80 locos taking the total supply to 280 by December 2022.

**Timely completion of the project within estimated cost:** The project involved construction of factory and township at Madhepura and maintenance depots at Saharanpur and Nagpur. The project was originally estimated to be completed at a cost of ₹1,375 crore to be funded with debt of ₹961 crore, equity of ₹384 crore and the balance through internal accruals. However, the project cost was later revised to ₹1,250 crore. The project was completed at about ₹1,250 crore funded by way of ₹693 crore of debt, equity of ₹384 crore and balance through internal accruals. The entire project has been completed within the defined timelines with no delays. Madhepura factory and Saharanpur is completed as per schedule, viz., by February 2019 and February 2018, respectively, and commenced operations. The Madhepura factory has two fitting lines capable of producing 120 locos per annum. As per PCMA agreement, the company was scheduled to complete Nagpur depot construction by February 2022, and the same has been extended by 90 days on account of COVID. MELPL has informed that the Nagpur depo has been completed by May 2022.

**Repayment of entire term debt and subordinated debt:** Post successful completion of testing in FY21, the company started receiving regular cash inflows on delivery of locos to railways (company has been receiving cash from IR in less than 15 days from date of invoice) resulting in sufficient cash surplus leading to prepayment of entire term debt to the tune of Rs 304.87 crore during FY22. Furthermore, prior to receipt of cash flows from project, MELPL has received, in the past, support in the form of subordinated unsecured loan from group entity -Alstom Transport India Limited (ATIL), a total of ₹1,119.84 crore was outstanding as on March 31, 2021. During FY22, post repayment of the external debt, the company has repaid entire subordinated debt. Hence, as on March 31, 2022, there is no borrowings outstanding in the books of the company.

**Robust growth in TOI during FY22 with stable revenue visibility**

During FY22, the revenue of the company has grown by about 72% to ₹3,035.31 crore from ₹1769.45 crore. The delivery of the locomotives is as per the schedule. During FY22, the company has supplied 110 locos. The sales are expected to remain stable at around ₹2,900-3,000 crore owing to pre-defined schedule and cost structure. For H1FY23, the company's revenue grew by around 32% to ₹1,716.65 crore vis-à-vis ₹1,303.39 crore booked during the same period in FY22. As per IND AS 115, company recognises revenues on percentage of cost incurred during the year out of total estimated cost of completion. The aggregate amount of costs incurred during the year plus recognised margin is determined as revenue during the period. The cost includes direct materials, services, labour and appropriation of overheads including depreciation and amortisation.

**Improved capital structure in FY22**

The capital structure of the company improved with repayment of entire external term loan and subordinated unsecured loans availed from ATIL. The overall gearing ratio improved considerably from 0.25x as on March 31, 2021, to 0.02x as on March 31, 2022. As on March 31, 2022, the company does not have any external borrowings. Furthermore, the company does not have any plans to raise additional debt or to undertake any major capex.

## Key weaknesses

**Susceptibility of profitability margins toward raw material price movements to the extent not covered under pass thru arrangements:** As per PCMA, the sale price of the locomotive by MELPL is explicitly defined but is subject to the indexation based on defined indices in the PCMA and MELPL has also made similar arrangement with its suppliers. Therefore, MELPL's ability to protect its margin from any adverse price movement of raw materials to the extent not covered under pass thru arrangements under contract price adjustments (CPA) provided in the PCMA would be key to sustain its profitability.

**Exposure to supply risk of raw material:** MELPL has defined timelines to supply 800 locomotives. It becomes essential for the company to receive the raw material on time, as any delay in the procurement will lead to delay in supply of locomotives. MELPL, however, has formed a supplier development team and has identified majority of the vendors for the supply of parts. MELPL procures around 55-60% of materials from group concern ATIL (located in Coimbatore) and balance from external suppliers.

## **Liquidity:** Strong

Timely receipt of receivables from MOR on a consistent basis has significantly improved the liquidity position of MELPL. The liquidity profile of the company is marked by free cash and cash equivalents of about ₹463 crore as on September 30, 2022, with no debt obligations. The company does not have any fund-based limits. The operating cycle of the company is negative owing to the short collection period resulting in favourable cash flows.

## Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Policy on Withdraw.al of Ratings

## About the company and industry

MELPL is a 74:26 joint venture (JV) between AMIPL and GOI. The company was incorporated with the purpose to supply 800 locomotives to IR under PCMA entered dated November 24, 2015, between MELPL and MOR. The locomotives have specification of 9000KW (12,000HP), IGBT (insulated-gate bipolar transistor) based 3-phase drive electric locomotives having twin identical Bo-Bo configuration over a supply period of 11 years spanning FY18-FY28. MELPL will also undertake maintenance of first 500 locomotives. The project involved setting up of locomotive factory and township at Madhepura, Bihar, and two maintenance depots, one each at Saharanpur, UP and Nagpur, Maharashtra.

## Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Industrials | Capital Goods | Industrial Manufacturing | Industrial Products |

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | H1FY23 (P) |
|---|---|---|---|
| Total operating income | 1,769.45 | 3,035.31 | 1716.65 |
| PBILDT | 321.16 | 428.90 | 305.95 |
| PAT | 42.93 | 165.66 | 151.41 |
| Overall gearing (times) | 0.25 | 0.02 | - |
| Interest coverage (times) | 2.20 | 6.69 | NM |

A: Audited, P: Provisional, NM: Not Meaningful

**Status of non-cooperation with previous CRA:** Not applicable
**Any other information:** Not applicable
**Rating history for the last three years:** Please refer Annexure-2
**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3
**Complexity level of the various instruments rated**: Annexure-4
**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-fund-based - LT-Bank Guarantee | - | - | - | - | 110.00 | CARE AA-; Stable |

**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 | Fund-based - LT-Term Loan | LT | - | - | - | 1)Withdrawn** (07-Jan-22) | 1)CARE A; Stable (06-Jan-21) | 1)CARE A-; Negative (02-Jan-20) |
| 2 | Fund-based - LT-Cash Credit | LT | - | - | - | - | 1)Withdrawn# (06-Jan-21) | 1)CARE A-; Negative (02-Jan-20) |
| 3 | Non-fund-based - LT-Bank Guarantee | LT | 110.00 | CARE AA-; Stable | - | 1)CARE A+; Stable (07-Jan-22) | 1)CARE A; Stable (06-Jan-21) | 1)CARE A-; Negative (02-Jan-20) |

*Long term/Short term.
** Repaid
# Closed

**Annexure-3: Detailed explanation of the 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 | Non-fund-based - LT-Bank Guarantee | Simple |

**Annexure-5: Lender details**

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

**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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