Titagarh Wagons Limited

March 21, 2022

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term (LT/ST) Bank Facilities	-	-	Reaffirmed at CARE BBB+; Positive / CARE A2 (Triple B Plus; Outlook: Positive / A Two) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Positive (Triple B Plus; Outlook: Positive) and Withdrawn
Total Bank Facilities	**-**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Limited (CARE) has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Positive/CARE A2' [Triple B Plus; Outlook: Positive/A Two] assigned to the bank facilities of Titagarh Wagons Ltd (TWL) with immediate effect. The above action has been taken at the request of TWL and 'No Objection Certificate' (NOC) received from the lenders that had extended the bank facilities rated by CARE.

CARE has also withdrawn the rating assigned to the proposed bank facilities of TWL with immediate effect at the request of the company as it has not availed the aforementioned proposed bank facilities and there is no amount outstanding under the proposed facilities as on date. Furthermore, CARE has withdrawn the rating assigned to certain bank facility of TWL with immediate effect, as the company has surrendered this limit in full to its lender and there is no amount outstanding under the facility as on date.

The ratings assigned to the bank facilities of TWL continue to derive comfort from the established track record and strong market position of the company in the domestic wagon manufacturing industry, diversified product portfolio, healthy order book position providing revenue visibility and stable outlook of wagon industry.

The ratings take note of the improvement in its total operating income (TOI) in 9MFY22 (refers to the period April 1 to December 31) after witnessing a decline in FY21 due to the impact of the pandemic on its operations. The PBILDT margin which had witnessed improvement in FY21 with various cost rationalization measures undertaken by the company, continued to remain relatively stable in 9MFY22. The ratings also factor in its comfortable standalone capital structure and debt coverage indicators.

Furthermore, the ratings continue to factor in the reduction in exposure to overseas subsidiaries along with management's enunciation and restrictive covenants by lenders that no further support would be provided to its step-down subsidiary Titagarh Firema Spa (TFA), Italy directly or indirectly by TWL.

The ratings, however, continue to remain constrained by the order and sales concentration to Indian Railways (IR) for domestic operations, though the company has gradually diversified its order book with foray into metro coach segment, execution risk associated with large size order of metro coaches, working capital intensive nature of operations, exposure to volatility in prices of raw materials and risk associated with tender based nature of business.

Outlook: Positive

The outlook on the long-term rating of TWL remains 'Positive' on the expectation of improvement in scale of operations going forward given the current order book and sustenance of profitability margins resulting in improvement in return ratios with comfortable capital structure and debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and strong market position in the wagon manufacturing industry

TWL is one of the largest private sector wagon manufacturers in India with a capacity to manufacture 8,400 wagons p.a. Over the years, the group has diversified its presence outside India by acquiring Italy-based metro coach maker TFA, Italy in 2015. The credentials of TFA, Italy enabled TWL to get high value order of Rs.1,125 crore from Pune Metro in August 2019.

Diversified product portfolio

TWL ventured into wagon manufacturing in 1997 as forward integration of its existing business of steel foundry for Indian Railways (IR). The company is also engaged in designing and manufacturing Electric Multiple Units (EMU), metros, passenger rolling stock, locos and electrical propulsion equipment in India.

The group had forayed into manufacturing of coaches for metro & high-speed train through acquisition of TFA, Italy in 2015. TWL further forayed into manufacturing a range of products for defence sector, bailey type modular bridges and shipbuilding which has broadened its customer profile. The company has also entered into an exclusive cooperation agreement with ABB in June'20, to enter the large and growing business of propulsion equipment (traction converters) for the Indian Railway EMUs market.

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

Healthy order book position providing revenue visibility
The standalone order book of TWL stood at Rs.2,550 crore as on December 31, 2021 (2.48x of the TOI in FY21). The order book majorly comprises of the orders pertaining to wagons of IR and Pune metro project.
The major order of Rs.935 crore in the above order book pertaining to Pune metro for 34 trains is in the process of execution. The company despatched its first train from Italy on July 30, 2021. The first 3 trains are to be built in Italy and balance 31 trains will be manufactured in India.

Improvement in TOI in 9MFY22 with stable profitability
The TOI of the company witnessed a de-growth of about 31% y-o-y in FY21 due to Covid-19 pandemic leading to disruption of operations especially during Q1FY21. The revenue from all the segments was impacted due to lower orders during the year apart from operational disturbances. However, the PBILDT margin witnessed an improvement from 9.09% in FY20 to 11.77% in FY21 on account of cost rationalization measures undertaken and reduction in job work expenses as a % of cost of sales.
In 9MFY22, its TOI witnessed a growth of 40% y-o-y compared with 9MFY21 on account of execution of new orders received by the company for wagons and coaches. PBILDT margin remained relatively stable at about 11%. PBILDT interest coverage however, witnessed an improvement from 1.98x in 9MFY21 to 2.88x in 9MFY22. PAT margin witnessed an improvement from 4.38% in 9MFY21 to 5.53% in 9MFY22 with improvement PBILDT and decline in capital charges.

Comfortable capital structure and debt coverage indicators
The term debt reduced as on March 31, 2021 as compared to March 31, 2020 on account of company prepaying its term loan instalment amounting to Rs.45 crore in FY21. Further, with increase in cash flow from operations in FY21 on account of decrease in receivables and inventory, the working capital utilization remained nil as on March 31, 2021. Accordingly, total debt reduced which led to improvement in overall gearing from 0.36x as on March 31, 2020 to 0.24x as on March 31, 2021. Furthermore, the company prepaid term debt amounting to Rs.44 crore in April 2021.
Total Debt/GCA, too, improved from 6.12x as on March 31, 2020 to 2.65x as on March 31, 2021 on account of reduction in total debt along with increase in cash accruals.

Decrease in exposure to subsidiaries/joint ventures
The exposure of TWL to its subsidiaries/JVs had decreased substantially over the past few years from Rs.866 crore as on March 31, 2019 to Rs.120 crore as on March 31, 2020 with release of its corporate guarantee for debt availed in TFA, Italy. Due to subdued profitability and significant impact of the Covid-19 pandemic on its operations, TFA (Italy) has approached its lenders for debt restructuring. However, TWL's management has strongly articulated that no support will be provided from TWL to its foreign subsidiaries, and it also does not have any legal obligation to do so. Furthermore, TWL's lenders have also stipulated restrictive conditions for further investment in overseas subsidiaries which is expected to support the standalone credit profile of TWL.

Stable outlook of wagon industry
Railways is the largest consumer of wagons. The outlook of the wagon industry is mainly dependent on the demand from the same and the budgeted allocation for such outlays. Government of India is expected to focus 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 Rating Weaknesses
Working capital intensive nature of operations
The nature of business of TWL entails considerable dependence on working capital requirements both in the form of fund-based and non-fund-based borrowings due to relatively longer processing period necessitating high inventory holding period and elongated collection period. Further, working capital requirement had increased after discontinuation of free supply items for wagons. TWL funds the same through a mix of creditors, customer advances (non-interest bearing in nature) and bank borrowings. The operating cycle witnessed a deterioration from 53 days in FY20 to 73 days in FY21 on account of elongation in collection period and inventory days.

High dependence on IR for domestic operation
Wagon manufacturers largely depend on orders from IR for their revenue. The proportion of sales to IR out of total operating income increased significantly from 62% in FY20 to 74% in FY21.
In order to partly mitigate the risk, the company has diversified its revenue base by increasing its presence in defence sector, private sector and export markets. Further, the company has diversified its customer profile with foray into metro coaches.

Exposure to volatility with regard to availability and price of raw material
Earlier, the IR used to provide free supply of major raw materials required by the companies to manufacture wagons. However, since 2017, the free supply has been discontinued and the wagon manufacturers have to rely on approved vendors for the supply of major raw materials such as steel, Cartridge Tapered Roller Bearings (CTRB), wheel sets, etc. Further, the company is exposed to significant volatility in prices of raw materials. However, the same is mitigated to an extent due to presence of escalation clause with regard to variation in input prices in long term contracts of IR.

Risk associated with tender based business
The company receives majority of its orders from IR and other government and semi-government entities for both domestic and foreign operations based on tender. Hence, the revenue is dependent on the company's ability to bid successfully for these tenders. Furthermore, there are various players operating in the segment who compete for the orders. Profitability margins come under pressure because of this competitive and tender based nature of the industry.

Liquidity – Adequate
The average month-end fund-based working capital utilization of the company stood low at 43% during the trailing 12 months ended January 2022. The company has also prepaid Rs.44 crore of term debt in April 2021 which was payable in FY23. The company does not have any term debt repayment obligation in FY22 and does not plan to incur any debt funded capex or expansion in the near term.

Analytical approach: Standalone.
TWL has one major foreign subsidiary, TFA having operations in Italy. There is limited cash flow fungibility with TFA and there is no corporate guarantee outstanding from TWL to TFA. Further, TWL has strongly articulated that no further increase in exposure will be made towards TFA. The lenders consortium of TWL has also stipulated restrictive conditions for further investment in overseas subsidiaries.

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial Ratios - Non Financial Sector
Rating Methodology: Consolidation
Liquidity Analysis of Non-Financial Sector Entities

About the Company
TWL, incorporated in July 1997, was promoted by Mr. Jagdish Prasad Chowdhury. The company manufactures various types of freight wagons, metro coaches, bailey bridges, steel and iron castings and other products.
TWL currently has four manufacturing facilities (two at Titagarh, one in Uttarpara, West Bengal and one in Bharatpur, Rajasthan). It has an annual capacity to manufacture 8,400 wagons, 36 Electric Multiple Units (EMU) coaches and 30,000 MTPA of cast iron products. Metro coaches are also to be manufactured from the Uttarpara unit.
Over the years, the group has acquired various foreign and domestic entities with a view to grow inorganically across various geographies as well as to have access to technology which enabled them to pre-qualify for metro coach tenders in India.

Brief Standalone Financials of TWL (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Operating Income	1490.81	1027.38	1055.89
PBILDT	135.48	120.88	116.04
PAT	-79.92	50.28	58.36
Overall gearing (times)	0.36	0.24	NA
Interest coverage (times)	2.08	2.21	2.88

A: Audited; UA: Unaudited; NA: Not 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 for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn

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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	-	1)CARE BBB+; Positive / CARE A2 (06-Jan-21)	1)CARE BBB+; Stable / CARE A2 (24-Oct-19)	-
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+; Positive (06-Jan-21)	1)CARE BBB+; Stable (24-Oct-19)	-

*Long term/ Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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