

SAIL-RITES Bengal Wagon Industry Private Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	95.09 (reduced from 111.32)	CARE BBB; Stable (Triple B: Outlook: Stable)	Reaffirmed
Short term Bank Facilities	20.00 (enhanced from 10.00)	CARE A3+ (A Three Plus)	
Total	115.09 (Rs. One Hundred Fifteen Crore and Nine Lakh Only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to SAIL-RITES Bengal Wagon Industry Private Ltd (SRBWIPL) continue to draw comfort from the joint ownership of Steel Authority of India Ltd (SAIL) and RITES Ltd (RITES) which provides technical support as well as financial flexibility to the company, assured off-take agreement with the Ministry of Railways, Government of India (GoI) and stable outlook of the wagon industry. The ratings also factor in the growth in operating income in FY20 (refers to the period April 01 to March 31) and improvement in capital structure, though there was moderation in the profitability margins. The ratings also take note of the impact of the lockdown associated with the ongoing pandemic on the profitability margins for Q1FY21 (refers to the period April 1 to June 30). The performance is however, expected to improve from Q2FY21 with gradual relaxation of lockdown conditions resulting in increase in pace of execution of orders in hand and smoother inflow of raw materials and components.

The ratings continue to remain constrained by the susceptibility of profitability to volatility in input and finished goods prices with tender based and working capital intensive nature of operations. Further, the ratings also take note of the capital expenditure plans of the company, a part of which is expected to be funded out of debt.

Rating Sensitivities*Positive Factors*

- Sustained increase in scale of operations (operating income > Rs.300 crore) with regular receipt and execution of orders.
- Sustaining capital structure with gearing remaining below 1.5x.

Negative Factors

- Significant deterioration in gross operating cycle.
- Decline in scale of operations and PBILDT margins reducing below 8% on a sustained basis.
- Increase in overall gearing beyond 2x.
- Non-renewal of contract with the Indian Railways on expiry of 5 years from the start of operations.

Detailed description of the key rating drivers**Key Rating Strengths*****Ownership of SAIL and RITES provides technical as well as financial flexibility***

SRBWIPL, being a 50:50 JV of SAIL (rated CARE AA-; Negative/CARE A1+) and RITES, benefits from the strong parentage with significant experience in railways and infrastructure sector. SAIL had provided the infrastructure for setting up of the plant, while RITES has provided support in factory planning, supervision, product designing and engineering. Indian Railways has also provided technical assistance. The ownership structure also provides financial flexibility in terms of competitive interest rates.

Apart from the equity required for setting up the project, SAIL and RITES had also infused unsecured loans in the company in FY17 to support the operations.

Assured off-take agreement with Indian Railways for ten years, with exit clause after five years

On November 24, 2015, Ministry of Railways and SRBWIPL entered into an assured off-take agreement, for sale of 12,000 open and covered wagons over the contract period of 10 years and rehabilitation of at least 300 in-service wagons per annum during the said period. In December 2018, the company has received its third order for production and supply of 1200 Bogie Open Wagon Type (BOXNHL) new wagons worth Rs.370.31 crore. The said wagons were to be delivered to Railways by February 2020 initially; however, the delivery of the same was extended to October 2020 on account of short supply of wheel-sets by the approved vendor of IR and imposition of nationwide lockdown due to Covid-19 outbreak. The company is

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

continuing its 4th order for rehabilitation of 300 wagons worth Rs.35.56 crore received in August, 2019. The current order book provides revenue visibility to the company and ramping up of production to meet delivery schedule shall remain crucial. However, the contract has exit clause after five years by the Indian Railways (ending in 2021). Renewal of contract after expiry of five years for a further period of five years and ability to garner orders from other clients as well is a key rating sensitivity. SRBWIPL is exploring the opportunities to sell wagons to private consumers, which will assist the company in reducing its dependence on Indian Railway.

Growth in operating income in FY20 and improvement in capital structure

The company's operating income increased by around 23% to Rs.264 crore in FY20 from Rs.214 crore in FY19. The PBILDT on an absolute basis remained stable though the margin deteriorated to 11.20% in FY20 as against 14.04% in FY19 on account of higher raw material purchase cost which could not be passed on fully. The PBILDT interest coverage ratio, remained comfortable, at 3.49x in FY20 (3.74x in FY19). The company achieved stable GCA of Rs.21.59 crore in FY20 as compared to Rs.23.30 crore in FY19.

The overall gearing ratio improved from 2.34x as on March 31, 2019 to 1.51x as on March 31, 2020 due to accretion of profits to networth and scheduled repayment of term debt. With gradual improvement in profitability, the company has commenced repayment of the unsecured loans availed from the promoters leading to moderate debt service coverage indicators.

Due to the outbreak of Covid-19, the plant was operational at around 20% capacity in April 2020 and around 50% in May 2020, after which the production resumed at 100% capacity from June 2020 onwards. In Q1FY21, the company achieved PAT of Rs.0.51 crore on total operating income of Rs.43.86 crore (PAT of Rs.1.80 crore on total operating income of Rs.49.47 crore in Q1FY20) due to the restrictions imposed around the nation impacting raw material cost. The PBILDT margin moderated to 8.98% in Q1FY21. With gradual relaxation of lockdown restrictions, the execution level and raw material availability is expected to improve in the remaining part of the year.

Stable outlook of wagon industry

Indian Railway is largest consumer of wagons. The outlook of the wagon industry is mainly dependent on the demand from the Indian Railways and the budgeted allocation for such outlays. With the government's focus on development of the railway infrastructure and ensuring faster development and completion of tracks, rail electrification, rolling stock manufacturing and delivery of passenger freight services, the long term prospect of wagon industry remains stable.

The prospect of the company lies in its ability to achieve optimum production, manage working capital efficiently and receive need-based support from promoters.

Key Rating Weaknesses

Profitability susceptible to the tender-based pricing for manufacturing wagon; however price escalation clause provides some comfort

While the quantity of order is fixed by the off-take agreement, the contract price for wagon manufacturing shall be as per the tenders. The prices of raw materials are volatile in nature but price variation clause ensures recovery of major increase in input cost. There is an escalation clause in the contract for realization price of the rehabilitation wagon and new wagon manufactured and sold for the volatility in the input prices & wages paid. SRBWIPL sources major raw material for wagon rehabilitation viz. structural, MS plates and SS plates at prevailing market price from SAIL. Other material like wheelsets, airbrake, couplers etc is procured from RDSO approved vendors/RITES inspected suppliers.

Working capital intensive nature of business

Due to change in policy of Railways to stop providing free supply of raw materials (Steels, CTRBs, Wheel Sets & other items) required for wagon manufacturing there has been an increase in working capital requirements of the company for procuring the raw materials. The current ratio continued to remain moderate at 1.18x as on March 31, 2020 (0.82x as on March 31, 2019). The operating cycle increased to 61 days in FY20 as against 34 days in FY19. This is mainly on account of increase in collection period and inventory period due to the disturbance in operations and collections at the back of Covid-19 in March 2020.

Risk associated with the proposed capital expenditure plans of the company

The company is planning to invest in electrification of railway line inside the premises of the factory for the wagons. Further, it is also planning to make a capital expenditure for building a factory shed, renovation/improvement of the office infrastructure and manufacturing of a new wagon type along with purchase of additional equipment.

The above mentioned capex is expected to entail a total cost of about Rs.17 crore and expected to be met partly through internal accruals and partly through debt. The various projects are however, at a nascent stage and the financial closure is also yet to be achieved.

Liquidity: Adequate

The company has adequate liquidity characterised by sufficient cushion in accruals vis-à-vis debt repayment obligation. The average fund based working capital utilisation remained moderate at around 56% for the 12 months ending August 2020. The expenditure for the planned capex is likely to be incurred mainly in FY22 and the company plans to avail term loans for part financing of the same. The company had availed moratorium on debt repayment in terms of the Covid-19 Regulatory Package of the Reserve Bank of India. However, it commenced repaying the term loan instalment after moratorium I.

Analytical approach: Standalone while factoring the linkages with the promoter entities, SAIL and RITES.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[Care's Policy on Default Recognition](#)

[Care's Methodology for Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Consolidation and factoring linkages in rating](#)

[Liquidity analysis of Non-Financial sector](#)

About the Company

Incorporated in 2010, SRBWIPL was set up as a 50:50 joint venture between SAIL and RITES, for setting up of a wagon manufacturing and rehabilitation facility. The company was set up based on commitment given to SAIL and RITES by Ministry of Railways for assured off-take of wagons vide its letter dated October 25, 2010.

Accordingly, in September 2015, SRBWIPL set up a wagon manufacturing and rehabilitation facility at Kulti in Burdwan (West Bengal). Post-commissioning, Ministry of Railways and SRBWIPL entered into an assured off-take agreement dated November 24, 2015, for sale of 12,000 wagons over the contract period of 10 years and rehabilitation of at least 300 wagons p.a. during the said period. The company is registered with Research Designs & Standards Organisation (RDSO) for G-105 (2011) quality specification as mandated by the Indian Railways (IR). The plant commenced commercial production in December 2016.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	214.34	263.58
PBILDT	30.09	29.52
PAT	16.49	15.53
Overall gearing (times)	2.34	1.51
Interest coverage (times)	3.74	3.49

A: Audited

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 Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2023	31.09	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	55.00	CARE BBB; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	9.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	20.00	CARE A3+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	31.09	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Oct-19)	1)CARE BBB; Stable (27-Sep-18)	1)CARE BBB-; Stable (04-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	55.00	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Oct-19)	1)CARE BBB; Stable (27-Sep-18)	-
3.	Non-fund-based - LT-Bank Guarantees	LT	9.00	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Oct-19)	1)CARE BBB; Stable (27-Sep-18)	-
4.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A3+	-	1)CARE A3+ (09-Oct-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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