Texmaco Rail & Engineering Limited

January 08, 2018

Rating

Instruments	**Amount (Rs. crore)**	Rating[1]	**Rating Action**
Long term Bank Facilities	334 (enhanced from 244)	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	**Reaffirmed**
Short term Bank Facilities	5 (reduced from 1100)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long/Short term Bank Facilities	1662 (enhanced from 642)	**CARE AA-; Negative/ CARE A1+ (Double A Minus; Outlook: Negative/ A One Plus)**	**Reaffirmed**
Total	**2,001 (Rs. Two Thousand and one crore only)**		
Commercial Paper (CP)*	**100**	**CARE A1+ (A One Plus)**	**Reaffirmed**

**carved out of the sanctioned fund based working capital limits of the company*
Details of instrument/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to Texmaco Rail & Engineering Ltd (TexRail) continue to draw strength from the experience of the promoters, long and satisfactory track record of the company, diversified operations in the railways segment with the company being a total rail solution provider, healthy order book position, rising demand for commodity specific wagons among private players as well as export destinations, Joint Venture (JV) with leading technology & engineering and leasing companies and comfortable liquidity position marked by healthy unencumbered liquid investments.

The ratings also factor in the increase in scale of operations in FY17 (refers to the period April 1 to March 31) and improvement in profitability with stable capital structure and debt coverage indicators. The ratings also take note of the loss incurred in H1FY18 mainly due to lack of orders in the heavy engineering division.

The ratings continue to be constrained by competition in the various business segments of the company and working capital intensive nature of operations.

Maintaining satisfactory order book position, improvement in profitability with operational synergies derived from the acquisitions & new ventures and maintaining comfortable capital structure & liquid investments are the key rating sensitivities.

Outlook: Negative

The 'Negative' outlook reflects the expected pressure on profitability in the near term due to under absorption of fixed overheads in the heavy engineering division and high working capital intensity on a consolidated basis on account of working capital intensive nature of operations in Rail EPC segment. The outlook may be revised to 'Stable' on increase in pace of execution of the existing order book leading to improvement in profitability and improvement in operating cycle on account of integration of operations of recently acquired businesses with TexRail.

Detailed description of the key rating drivers

Key Rating Strengths

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Experienced Promoters

TexRail, faction of the K. K. Birla group, belongs to Mr. Saroj Kumar Poddar, which was subsequently rechristened as Adventz Group. Adventz is an established business group in the country having interest in fertilizers, chemicals, financial services, real estate and sugar.

Long & satisfactory track record with gradual focus on becoming a total rail solution provider

Texmaco, promoted in 1939, made a modest beginning with textile machinery manufacturing. Later, it diversified to heavy engineering and subsequently to railway wagon manufacturing. Over the years, it has added capacity for manufacturing hydro-mechanical equipments, heavy steel structures, process equipments and steel foundry products.
TexRail is one of the largest players in the domestic wagon manufacturing industry in India. The company has strengthened its position as a total rail solutions provider with presence in wagons, coaches, bridges, track laying, tele-communications, electrification, etc.

Healthy order book position

The company had an order book position of around Rs.3085 crore as on November 30, 2017 which includes orders of rolling stocks, bridges, structural, steel foundry and order book of Rail EPC division amounting to Rs.2235 crore. Further, Bright Power Projects (India) Pvt. Ltd (BPPPL, subsidiary of TexRail) had an order book position of about Rs.550 crore as on November 30, 2017. The consolidated order book stood at Rs.3782 crore as on December 1, 2017.

Diversified operations in railway segment

Earlier in the railway segment, the company used to primarily manufacture wagons for the Indian Railways (IR). Subsequently, the company has gradually diversified its operational presence into manufacturing commodity specific wagons for private parties, coaches, electric locomotive shells and Sub-Assemblies supplied to private parties. Further, the steel foundry along with HME & bridge division and Rail EPC business has helped the company to reduce its reliance on the wagon business.

Increase in scale of operations and profitability in FY17 with stable capital structure

The company’s consolidated total operating income increased by 20% y-o-y in FY17 which was primarily driven by the Rail EPC segment. The PBILDT margin improved from 4.55% in FY16 to 5.77% in FY17 on account of higher contribution of EPC division. PAT margin improved to 2.22% in FY17 vis-à-vis 1.78% in FY16. On a standalone basis, TexRail reported PAT of Rs.33.57 crore on total operating income of Rs.1154.15 crore in FY17 as against PAT of Rs.27.20 crore on operating income of Rs.1076.64 crore in FY16.
The capital structure of the company on a consolidated basis continued to remain comfortable with moderate interest coverage. The overall gearing, continued to be comfortable at 0.42x as on March 31, 2017 as against 0.44x as on March 31, 2016. The PBILDT interest coverage improved from 1.01x in FY16 to 1.29x in FY17. Though interest coverage is moderate, it remained comfortable considering the stable non-operating income from investments.
Furthermore, the company had healthy liquid investments aggregating Rs.337.76 crore as on March 31, 2017, invested majorly in bonds and mutual funds. The balance of liquid investments was Rs.360.49 crore as on September 30, 2017.
However, the performance deteriorated in H1FY18 due to continuing lean wagon orders from IR resulting in losses in heavy engineering & steel foundry segments. In H1FY18, TexRail reported net loss of Rs.16.95 crore on total operating income of Rs.415.43 crore as against PAT of Rs.24.78 crore on operating income of Rs.617.35 crore in H1FY17.

Rising demand for commodity specific wagons among private players as well as export destinations

Apart from supplying wagons to IR, TexRail has been receiving large orders of commodity specific wagons from private sector companies. TexRail with capacity of producing these wagons is better placed in the competition to take advantage of this growing demand.

Joint Venture with leading technology & engineering and leasing companies

Texmaco Hi-Tech Pvt Ltd is a wholly owned subsidiary of TexRail and makes high precision components such as bogies, etc. for locomotives and coaches. It was earlier an equal JV between UGL of Australia and TexRail.

Touax Texmaco Railcar Leasing Pvt Ltd (TTRLPL) is a JV of TexRail and Touax Rail of France, 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 Railways under its Wagon Leasing Scheme.
Further, the company has also promoted WBTRPL as a JV with WABTEC of US, which is global supplier of highly engineered components and systems for railways and specific industrial markets. Such presence of an established JV partner in the US market is expected to benefit TexRail in developing its export arm of its steel foundry unit.

Key Rating Weaknesses

Working capital intensive nature of operations

The nature of the business of TexRail entails considerable dependence on working capital requirements both in the form of fund-based and non-fund based borrowings. The operating cycle of the company deteriorated to 163 days in FY17 vis-à-vis 152 days in FY16 due to elongated collection period considering the impact of the merger of KRNL. The average collection period elongated from 146 days in FY16 to 174 days in FY17 due to higher collection period in the Rail EPC division which also entails retention money. However, majority of the debtors pertained to IR and reputed private sector entities and default risk is low. The average inventory period and average creditor period reduced from 112 days and 106 days respectively in FY16 to 85 days and 96 days in FY17 respectively.

Competition in the wagon segment as well as in the new businesses acquired by the company

The company faces stiff competition from other established players in the wagon segment due to lower availability of fresh orders. Further, in the rail EPC segment also it is exposed to competition from larger players in the industry.

Analytical approach: Consolidated

Applicable Criteria

[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology-Factoring linkages in Ratings](#)

About the Company

TexRail comprises businesses of Heavy Engineering and Steel Foundry demerged from Texmaco Limited in the year 2010 as per the Scheme of Arrangement approved by the Hon'ble, High Court, Calcutta. With the said demerger, more than 95% of the business of Texmaco Ltd. became part of TexRail. It is a faction of the erstwhile K.K. Birla group and currently part of the Adventz group of Kolkata. TexRail has an installed capacity of 10,000 Vehicle Units (VUs) of wagons which remains flexible in nature, 20,400 MTPA of Structurals, 10,000 MTPA of Bridges and 30,000 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 five 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 on and from February 11, 2017, with appointed date being April 1, 2014. The business of KRNL of execution of railway projects involving track laying, signaling & telecommunication in India is running as the 'KRN' division under TexRail.
Further, in January, 2016, TexRail had acquired 55% shareholding in BPPPL which undertakes electrical contracts for erection, installation, commissioning and maintenance of overhead lines, transformers and other equipments. The company derives majority of its revenue from the Indian Railways.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1102.71	1325.85
PBILDT	50.20	76.45
PAT	19.62	29.38
Overall gearing (times)	0.44	0.42
Interest coverage (times)	1.01	1.29

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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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
Non-fund-based - ST-Forward Contract	-	-	-	5.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	299.00	CARE AA-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	1662.00	CARE AA-; Negative / CARE A1+
Fund-based - LT-Term Loan	-	-	September'2023	35.00	CARE AA-; Negative
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	100.00	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A1+	1)CARE A1+ (15-May-17) 2)CARE A1+ (25-Apr-17)	1)CARE A1+ (20-Apr-16)	-	1)CARE A1+ (04-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	299.00	CARE AA-; Negative	1)CARE AA-; Negative (15-May-17) 2)CARE AA-; Negative (25-Apr-17)	1)CARE AA- (20-Apr-16)	-	1)CARE AA- (04-Mar-15)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	1)CARE A1+ (25-Apr-17)	1)CARE A1+ (13-Sep-16)	-	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1662.00	CARE AA-; Negative / CARE A1+	1)CARE AA-; Negative / CARE A1+ (15-May-17)	-	-	-
5.	Fund-based - LT-Term Loan	LT	35.00	CARE AA-; Negative	-	-	-	-

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