Texmaco Rail & Engineering Limited

January 8, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	414.00 (enhanced from 334.00)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)**
Short term Bank Facilities	5.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long Term/Short Term Bank Facilities	1662.00	**CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**	**Revised from CARE AA-; Negative/CARE A1+ (Double A Minus; Outlook: Negative/A One Plus)**
Total	**2,081.00 (Rs. Two Thousand and Eighty 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 instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the long term rating assigned to Texmaco Rail & Engineering Limited (TexRail) takes into account the increased working capital intensity of operations resulting in significant increase in operating cycle in FY18 (refers to the period April 1 to March 31) and significant reduction in the amount of unencumbered liquid investments available with the company. This has led to significantly higher net debt than anticipated.

The ratings 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 and Joint Venture (JV) with leading technology & engineering and leasing companies.

The ratings continue to be constrained by the competition in the various business segments of the company and exposure to volatility in the raw material prices.

Maintaining satisfactory order book position, improvement in profitability and operating cycle and maintaining capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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 diversified operations in railway segment

Texmaco, promoted in 1939, made a modest beginning with textile machinery manufacturing. Later, it diversified to heavy engineering and subsequently to railway wagon manufacturing. 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. TexRail is one of the largest players in the domestic wagon manufacturing industry in India.

Over the years, it has added capacity for manufacturing hydro-mechanical equipment, heavy steel structures, process equipment and steel foundry products.

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

It also ventured into rail EPC through acquisition of Kalindee Rail Nirman (Engineers) Limited (KRNL, now merged with TexRail) and Bright Power Projects (India) Private Limited (BPPPL, proposed to be merged with TexRail).
The company has strengthened its position as a total rail solutions provider with presence in wagons, coaches, bridges, track laying, tele-communications, electrification, etc. Further during FY18, TexRail through its newly incorporated subsidiary Texmaco Transtrak Pvt. Ltd. has signed a MoU with CAF Signaling, Spain engaged in electronic inter-locking and train protection & warning systems.

Healthy order book position
The company had an order book of around Rs.4,685 crore as on September 30, 2018 which includes orders of rolling stocks, locomotive shells, bridges, structural, steel foundry and order book of Rail EPC division amounting to Rs.2,700 crore. Further, BPPPL (subsidiary of TexRail) had an order book position of about Rs.825 crore as on September 30, 2018. The consolidated order book stood at Rs.5,755 crore as on September 20, 2018 indicating healthy revenue visibility in the medium term.

Rising demand for commodity specific wagons among private players as well as export destinations
Apart from supplying wagons to India Railways (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.
Texmaco Touax Rail 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 Wabtec Texmaco Rail Private Limited 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
Increased working capital intensity of operations
The nature of business of TexRail entails considerable dependence on working capital requirement both in the form of fund-based and non-fund based borrowings. The operating cycle of the company deteriorated considerably to 256 days in FY18 vis-à-vis 163 days in FY17 mainly due to elongation in average collection period. The average inventory period and average creditors period remained relatively stable at 88 days and 103 days respectively in FY18 as against 85 days and 96 days in FY17 respectively. However, the average collection period has witnessed significant elongation during the last two years (FY17 and FY18) on account of venturing into rail EPC in which stage wise payments are received and retention money is also withheld. Average collection period elongated from 174 days in FY17 to 271 days in FY18.
Further, in the wagons order, free supply of materials from the IR is no longer available which has increased the working capital requirement. Following the increased working capital requirement, the unencumbered liquid investments available with the company reduced to Rs.141.92 crore as on Sep.30, 2018 as compared to Rs.337.76 crore as on Mar.31, 2017.
However, despite increase in operating income in H1FY19, the receivables (standalone) stood at similar level as on September 30, 2018. The majority of the debtors pertained to IR and reputed public/private sector entities and default risk is low.

Subdued operational performance in FY18, albeit improvement in H1FY19
The company's consolidated total operating income decreased by 14% y-o-y from Rs.1,325.85 crore in FY17 to Rs.1,145.75 crore in FY18, which was primarily due to lower revenue from the heavy engineering division. The performance of the heavy engineering division was impacted during FY18 due to poor order book of wagons for greater part of the year and no significant contribution from locomotive shells, hydro-mechanical equipment & bridges/structural departments. The PBILDT margin remained stable at 5.50% in FY18 vis-a-vis 5.77% in FY17 despite loss in heavy engineering division on account of higher contribution of EPC division. However, PAT margin declined from 2.14% in FY17 to 1.06% in FY18 due to similar level of interest expense inspite of decline in operating income.
On a standalone basis, TexRail reported PAT of Rs.10.08 crore on total operating income of Rs.926.89 crore in FY18 as against PAT of Rs.33.57 crore on total operating income of Rs.1,154.15 crore in FY17. However, the performance improved significantly in H1FY19 due to execution of wagon orders from IR resulting in profits in heavy engineering & steel foundry segments. In H1FY19, TexRail reported net profit of Rs.19.31 crore on total operating income of Rs.648.50

crore as against net loss of Rs.16.95 crore on total operating income of Rs.415.43 crore in H1FY18. However, the margins remain impacted due to steep rise in prices of steel, MS scrap, graphite electrode, furnace oil, etc.

Moderation in capital structure and debt coverage indicators
The capital structure of the company on a consolidated basis remained moderate. The total debt outstanding increased from Rs.549.64 crore as on March 31, 2017 to Rs.670.58 crore as on March 31, 2018 with increase in working capital borrowings. Consequently, the overall gearing increased to 0.65x as on March 31, 2018 as against 0.54x as on March 31, 2017. Further, net debt stood at Rs.365.56 crore as against anticipated net debt of Rs.179.10 crore as on March 31, 2018.
The PBILDT interest coverage moderated from 1.29x in FY17 to 1.04x in FY18 with decrease in operating profitability and stable finance costs. Though interest coverage is moderate, it remained comfortable considering the stable non-operating income from investments and rent.
The total debt/GCA stood at 16.42x in FY18 vis-à-vis 10.26x in FY17.

Competition in the wagon segment as well as rail EPC segment
The company faces stiff competition from other established players in the wagon segment. Further, in the rail EPC segment also it is exposed to competition from larger players in the industry.

Liquidity
The liquidity position of the company is comfortable with low level of term debt repayment in FY19. The company had cash and cash equivalents (standalone) of Rs.12.73 crore as on September 30, 2018. Further, it had unencumbered liquid investments of Rs.141.92 crore as on September 30, 2018.

Analytical approach: Consolidated financials of TexRail on account of operational and financial linkages with subsidiaries/JVs. The list of companies being consolidated is as under:

Subsidiaries	***Holding of TexRail***
Texmaco Hi-tech Private Limited	100%
Belur Engineering Private Limited	100%
Bright Power Projects (India) Private Limited	55%
Texmaco Transtrak Private Limited	51%
Texmaco Defence Systems Private Limited	51%
TexRail (SA) Pty Limited	100%
JVs	
Touax Texmaco Railcar Leasing Private Limited	50%
Wabtec Texmaco Rail Private Limited	40%

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 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 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.
During FY18, the company has formed subsidiaries namely Texmaco Transtrak Private Limited and Texmaco Defence Private Limited to expand its footprints in the segments of rail signaling & safety equipment and defence products. TexRail has also incorporated a subsidiary in South Africa namely TexRail SA (Pty.) for exports in Asian and Africa markets.
The company has received the approval from the shareholders to the scheme of amalgamation of its subsidiaries BPPPL and Texmaco Hi-Tech into and with the company w.e.f. April 1, 2017, i.e., the appointed date; subject to relevant approvals.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,325.85	1,145.84
PBILDT	76.45	63.09
PAT	29.38	12.65
Overall gearing (times)	0.54	0.65
Interest coverage (times)	1.29	1.04

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 A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1662.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	Sep'24	115.00	CARE A+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A1+	-	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (15-May-17) 3)CARE A1+ (25-Apr-17)	1)CARE A1+ (20-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	299.00	CARE A+; Stable	-	1)CARE AA-; Negative (08-Jan-18) 2)CARE AA-; Negative (15-May-17) 3)CARE AA-; Negative (25-Apr-17)	1)CARE AA- (20-Apr-16)	-
3.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (25-Apr-17)	1)CARE A1+ (13-Sep-16)	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1662.00	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Negative / CARE A1+ (08-Jan-18) 2)CARE AA-; Negative / CARE A1+ (15-May-17)	-	-
5.	Fund-based - LT-Term Loan	LT	115.00	CARE A+; Stable	-	1)CARE AA-; Negative (08-Jan-18)	-	-

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