Texmaco Rail & Engineering Limited

March 25, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities	748.00 (enhanced from 494.00)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	5.00	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
Long Term/Short Term Bank Facilities	1,911.99	**CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)**	**Revised from CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**
Total	**2,664.99 (Rs. Two Thousand Six Hundred Sixty Four Crore and Ninety Nine Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the short term rating assigned to Texmaco Rail & Engineering Limited (TexRail) takes into account the continued pressure on liquidity arising out of the high working capital intensity of operations and deferment of right issue which would have aided to the liquidity. The company had firm plans of raising equity of around Rs.200 crore through a Right issue and also raise long term debt of about Rs.300 crore thereafter, as approved by the Board to meet the long term working capital requirements. The equity was expected to be infused by January'2020 and thereafter revised to be infused by March'2020. However, the equity issue has been postponed considering the present subdued market scenario. Meanwhile, the company is raising funds to the tune of about Rs.40-50 crore from promoter group either in the form of preference shares, inter-corporate deposits or unsecured loans to support the liquidity. On debt side, the company had sought for enhancement in its fund based working capital limits from banks to the tune of Rs.200 crore out of which sanction of Rs.165 crore has been received.

The infusion of stable long term funds is critical to improve the liquidity profile of the company from a long term perspective also. CARE will continue to monitor the developments in this regard.

The ratings assigned to TexRail continue to draw strength from the experience of the promoters, long track record of the company, leadership position in domestic wagon segment, diversified operations in the railways segment and Joint Venture (JV) with leading technology & engineering and leasing companies, healthy order book position and rising demand for commodity specific wagons among private players as well as export destinations.

The ratings also take note of the relatively stable operational performance of TexRail during 9MFY20 (refers to the period April 1 to December 31), though debt level increased to support the increase in operating income.

The ratings, however, continue to be constrained by the high working capital intensity of operations resulting in elongated operating cycle, competition in the various business segments of the company and exposure to volatility in the raw material prices.

Ratings Sensitivities

Positive Factors:

- Steady execution of present order book and ability to garner new orders leading to improvement in revenue and profitability
- Efficient management of working capital requirement and improvement in operating cycle
- Equity Infusion leading to improvement in capital structure and liquidity profile on sustained basis.

Negative Factors:

- Further elongation in operating cycle beyond 250 days
- Inability to raise resources in the form of equity and long term debt to meet increased working capital requirement
- Increase in net overall gearing beyond unity.

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

- Decline in operating profitability (PBILDT margin < 8%)

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. The promoters have significant business experience.

Long track record with diversified operations in railway segment
Texmaco, promoted in 1939, started operations 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.
It ventured into rail EPC through acquisition of Kalindee Rail Nirman (Engineers) Limited (KRNL) and Bright Power Projects (India) Private Limited (BPPPL), both of which are now merged with TexRail.
The company has strengthened its position as a total rail solutions provider with presence in wagons, locomotive shells, 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. During FY19, TexRail has also incorporated Texmaco Rail Systems Private Limited for manufacturing and supplying parts of railway signaling and transportation systems.

Healthy order book position
The orders of Indian Railways yet to be executed along with orders from private players in respect to wagons, other rolling stocks, bridges, structural, steel foundry, order book of KRN division (Rs.2,150 crore) and BPPPL division (Rs.530 crore) has led to a satisfactory order book position of around Rs.4,300 crore as on December 31, 2019. Further, there were orders of Rs.300 crore in other subsidiaries/JVs. The consolidated order book stood at Rs.4,600 crore as on December 31, 2019.

Improved operational performance in FY19 which remained relatively stable in 9MFY20
The company's consolidated total operating income witnessed robust growth from Rs.1,134.45 crore in FY18 to Rs.1,860.78 crore in FY19. The PBILDT margin improved from 5.55% in FY18 to 9.04% in FY19 with improvement in performance of heavy engineering division and steel foundry along with continued high contribution of EPC division which has higher margins. The profit from JV/associates was Rs.2.62 crore in FY19 as against loss of Rs.0.75 crore in FY18. Inspite of marginal increase in capital charges and lower non-operating income, the net profit increased from Rs.12.65 crore in FY18 to Rs.75.41 crore in FY19 and PAT margin improved from 1.07% in FY18 to 4.01% in FY19. Non-operating income was lower at Rs.19.65 crore in FY19 (vis-à-vis Rs.47.63 crore in FY18) due to reduced treasury income during the year and one-time settlement income (~Rs.19 crore) received in FY18.
The company generated GCA of Rs.116.17 crore in FY19 vis-à-vis Rs.40.86 crore in FY18.
The debt coverage indicators of the company witnessed considerable improvement during FY19 with higher operating profit and cash accruals. The PBILDT interest coverage improved from 1.03x in FY18 to 2.39x in FY19. The PBIT interest coverage which was below unity in FY18, also improved to 1.97x in FY19. Net Debt/GCA improved from 11.12x as on March 31, 2018 to 5.21x as on March 31, 2019.
In 9MFY20, TexRail reported net profit of Rs.35.86 crore on total income of Rs.1,411.05 crore as against net profit of Rs.42.95 crore on total income of Rs.1,214.85 crore in 9MFY19. The operating profit margins were relatively stable. However, PAT margin declined mainly due to increase in finance cost.

Moderate capital structure
The capital structure of the company on a consolidated basis remained moderate as on March 31, 2019 with debt majorly comprising working capital borrowings. The total debt outstanding remained relatively stable at Rs.676.07 crore as on March 31, 2019 (including mobilisation advances for EPC business) as against Rs.640.58 crore as on March 31, 2018. Consequently, the overall gearing remained stable at 0.59x as on March 31, 2019 (0.60x as on March 31, 2018).
However, the liquid investments decreased considerably to Rs.71.03 crore as on March 31, 2019 from Rs.186.23 crore as on March 31, 2018 to fund the increase in working capital requirement. Accordingly, the net overall gearing increased from 0.43x as on March 31, 2018 to 0.53x as on March 31, 2019.
The consolidated debt (incl. mobilisation advance) stood at Rs.818 crore as on December 31, 2019.

The company was in the process of raising equity of about Rs.200 crore through a Rights issue which was expected to be completed by January 2020. Further, the Board of the company had also approved raising term debt as long term working capital. However, the rights issue has been postponed due to current market scenario.

Rising demand for commodity specific wagons among private players as well as export destinations
Apart from supplying wagons to India Railways, 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 and engineering and leasing companies
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.

Stable outlook of wagon industry
Railway 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. As per budget for 2019-20, overall allocation to railways has increased by 23% which would translate into higher orders for railway equipment manufacturers and capital goods sector including coach and wagon manufacturers, etc. The capital outlay for metro projects has also increased from Rs.14,865 crore to Rs.17,714 crore in Budget 2019-20.
Further, Government of India is expected to focus on improving the railway infrastructure and ensure faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services. The new wagon allocation scheme and revision in GST structure is also expected to benefit the wagon manufacturers.

Key Rating Weaknesses
Elongated operating cycle
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 improved to 203 days in FY19 vis-à-vis 257 days in FY18 with increase in scale of operation. However, the average collection period remained high at 217 days in FY19 with large amount of retention money and unbilled revenue.
The average inventory period and average creditor period remained relatively stable at 80 days and 94 days respectively in FY19 as against 89 days and 105 days in FY18 respectively.
The elongated operating cycle has resulted in high utilisation of working capital bank limits and the company has sought for enhancement in fund based limits. The company has received enhancement of Rs.165 crore and the timely release of balance enhanced limits is crucial from liquidity perspective.

Exposure to volatility with regard to availability and prices of raw material
Earlier, the Railways 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 with and the wagon manufacturers have to rely on Research Design and Standards Organisation (RDSO) approved vendors for the supply of major raw materials such as steel, Cartridge Tapered Roller Bearings (CTRB), wheel sets, etc.
The orders for wagons from Railways and private parties (except orders from private parties to be executed in short term, i.e., 1-2 months) have price escalation clause which mitigates the risk of increase in cost of materials to certain extent.
Further, in the rail EPC segment also, the company is exposed to raw material price volatility.

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: Adequate
The liquidity position of the company is adequate with sufficient cash accruals as against repayment obligation. The company had cash and cash equivalents (standalone) and liquid investments of Rs.56.84 crore as on February 26, 2020. The average maximum utilisation of working capital limits was high at about 97% during the last months ended January'2020.
The company also had firm plans to raise equity of Rs.200 crore by January'2020 and additional long term debt along with enhancement in fund based limits which were expected to improve liquidity over the long term. Though the rights issue and

long term debt issuance has not materialized amidst current market scenario, the company has received enhancement of Rs.165 crore in fund based limit which has eased liquidity. Further, the promoters plan to infuse funds in the form of preference shares, inter-corporate deposits or unsecured loans as required to further support liquidity.

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***
Belur Engineering Private Limited	100%
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
Rating Methodology – Outlook and Placing ratings under credit watch
Rating Methodology- Consolidation and Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial Ratios - Non Financial Sector
Rating Methodology-Construction Sector

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. BPPPL undertook electrical contracts for erection, installation, commissioning and maintenance of overhead lines, transformers and other equipment mainly for Indian Railways.
BPPPL and another subsidiary Texmaco Hi-Tech Private Ltd were merged into TexRail vide NCLT order received in April, 2019, with appointed date being April 1, 2017.

Brief Financials (Rs. Crore)	**FY18 (A)**	**FY19 (A)**
Total operating income	1134.45	1860.78
PBILDT	63.00	168.27
PAT	12.65	75.41
Overall gearing (times)	0.60	0.59
Interest coverage (times)	1.03	2.39

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

Annexure-1: Details of 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	-	-	-	633.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1911.99	CARE A+; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	July'24	115.00	CARE A+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A1	1)CARE A1+ (04-Nov-19)	1)CARE A1+ (08-Jan-19)	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	633.00	CARE A+; Stable	1)CARE A+; Stable (04-Nov-19)	1)CARE A+; Stable (08-Jan-19)	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	-	-	1)Withdrawn (04-Nov-19)	1)CARE A1+ (08-Jan-19)	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	1911.99	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1+ (04-Nov-19)	1)CARE A+; Stable / CARE A1+ (08-Jan-19)	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 A+; Stable (04-Nov-19)	1)CARE A+; Stable (08-Jan-19)	1)CARE AA-; Negative (08-Jan-18)	-

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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Ms Mamta Muklania
Contact no.: 033-4018 1651/98304 07120
Email ID: mamta.khemka@careratings.com

Business Development Contact
Name: Mr. Lalit Sikaria
Contact no.: 033-40181607
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**