Texmaco Rail & Engineering Limited

April 25, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	95	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	**Reaffirmed**
Short term Bank Facilities	1100 (reduced from 1145)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**1195 (Rs. One Thousand One hundred and Ninety Five 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 facilities/Instruments in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings assigned to Texmaco Rail & Engineering Ltd (TexRail) draw strength from the experience of the promoters, long and satisfactory track record of the company, TexRail becoming a total rail solution provider through merger of Kalindee Rail Nirman (Engineers) Ltd. (KRNL) along with acquisition of majority stake in Bright Power Projects (India) Pvt. Ltd. (BPPPL), healthy order book position, reduced reliance on Indian Railways (IR) for the wagon business and increased contribution of other divisions (structurals, bridges, steel foundry, EPC contracts) towards revenue of the company, 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 working capital intensity on a consolidated basis as compared to standalone operations and higher borrowing level as on March 31, 2016 leading to moderation in debt coverage indicators. However, the net leverage considering the liquid investments continued to remain comfortable.

The ratings continue to be constrained by competition in the wagon segment as well as in the new businesses acquired by the company and working capital intensive nature of operations.

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

Outlook: Negative

The 'Negative' outlook reflects the expected increase in debt level on a consolidated basis to finance the operations of the subsidiaries which have high working capital intensive nature of operations and capital requirement for purchasing assets for leasing for JV company. This is expected to result in increase in leverage and moderation in coverage indicators. The outlook may be revised to 'Stable' on improvement in operating cycle of subsidiaries with integration of operations under TexRail and lower than expected debt level on a consolidated basis.

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 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. Moreover, with the latest acquisition of equity stake in KRNL (subsequently merged with TexRail) and BPPPL which are engaged in providing other areas of rail solutions, TexRail has strengthened its position as a total rail solutions provider to leverage on growth opportunities in development of railway infrastructure.

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

Healthy order book position
The company has a order book position of around Rs.3491 crore as on January 1, 2017 which includes orders of IR yet to be executed along with orders from private players in respect to wagons, other rolling stocks, bridges, structural, steel foundry and order book of KRN division amounting to Rs.2300 crore. Further, BPPPL has an order book position of about Rs.478 crore as on January 1, 2017.

Diversified operations in railway segment
Earlier in the railway segment, the company used to primarily manufacture wagons for the IR (freight unit). Subsequently, the company has gradually diversified its operational presence into manufacturing of Coaches and of Electric Locomotive Shells and Sub-Assemblies supplied to private parties. Further, the merger of KRNL and steel structural business (part of Heavy Engineering division) along with the steel foundry business has helped the company to reduce its reliance on the wagon business.

Comfortable financial position coupled with healthy liquidity profile on a consolidated basis in FY16
The financial performance of the company improved in FY16 vis-à-vis FY15 wherein the income from operations of the company increased by 66% on a y-o-y basis. Accordingly, the profitability also witnessed an increase in absolute terms. However, the profitability margins of the company witnessed a y-o-y decline due to competitive pricing in respect of the orders.
The capital structure of the company continued to remain comfortable with moderate interest coverage.
TexRail prepared consolidated accounts for the first time in FY16. The company earned total operating income of Rs.953.76 crore during FY16 on a consolidated basis. The PBILDT margin on a consolidated basis was higher than standalone FY16 on account of higher margins in EPC division. However, the PAT margin on a consolidated basis was lower due to significantly higher interest expense on high borrowings of KRNL.
The overall gearing, though higher on a consolidated basis, continues to be comfortable at 0.41x as on March 31, 2016 (0.12x on a standalone basis). Interest coverage deteriorated in FY16 on a consolidated basis. However, it remained comfortable considering the stable non-operating income from investments.
Furthermore, the company had healthy liquid investments aggregating Rs.340.71 crore as on March 31, 2016, invested majorly in bonds and mutual funds. The balance of liquid investments was Rs.388 crore as on December 31, 2016.

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 and Ministry of Defence. 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
In view of downturn in locomotive sales in Australia, UGL of Australia exited from Texmaco UGL Rail Pvt. Ltd. (TURPL); equal JV between UGL and TexRail. Accordingly, TexRail acquired TURPL and it has become a wholly owned subsidiary of TexRail. TURPL has been rechristened as Texmaco Hi-Tech Pvt. Ltd. (THTPL).
The company has also formed a JV TTRLPL with 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 entering into the business of wagon leasing, pursuant to recent opening up of Wagon Leasing by Railways under its Wagon Leasing Scheme
Further, the company has signed a JV agreement with WABTEC of US, which is global supplier of highly engineered components and systems for railways and specific industrial markets, and promoted WBTRPL. 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 witnessed improvement and stood at 104 days in FY16 vis-à-vis 163 days in FY15 on a standalone basis.
However, on a consolidated basis, the working capital intensity is higher due to specialised EPC nature of business of KRNL and BPPPL. The operating cycle on a consolidated basis was 167 days as against 104 days on a standalone basis.

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.
In FY16 (consolidated), TexRail reported PAT of Rs.14.07 crore on total operating income of Rs.953.76 crore. The company achieved total operating income of Rs.1026.25 crore and PBT of Rs.30.63 crore in 9MFY17.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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.*

Analyst Contact:
Name: Ms Mamta Muklania
Tel: 033-4018 1651
Mobile : 98304 07120
Email: mamta.khemka@careratings.com

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About CARE Ratings:

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partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-BG/LC	-	-	-	1100.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	95.00	CARE AA-; Negative
Commercial Paper-Commercial Paper (Carved out)	-	-	-	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-BG/LC	ST	1100.00	CARE A1+	-	1)CARE A1+ (20-Apr-16)	-	1)CARE A1+ (04-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	95.00	CARE AA-; Negative	-	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+ (13-Sep-16)	-	-

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691