Texmaco Rail & Engineering Limited (Revised)

June 26, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities	676.63 (reduced from 748)	**CARE A-; Stable (Single A minus; Outlook: Stable)**	**Revised from CARE A+; Stable (Single A plus; Outlook: Stable)**
Short term Bank Facilities	5.00	**CARE A2 (A Two)**	**Revised from CARE A1 (A One)**
Long Term/Short Term Bank Facilities	1,906.99 (reduced from 1,911.99)	**CARE A-; Stable/CARE A2 (Single A Minus; Outlook: Stable/A Two)**	**Revised from CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)**
Total	**2,588.62 (Rs. Two thousand five hundred eighty eight crore and sixty two lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to Texmaco Rail & Engineering Limited (TexRail) takes into account the weakening in financial risk profile as indicated by the decline in profitability, increased debt levels and deterioration in debt coverage indicators in FY20 (refers to the period April 1 to March 31) which was not in line with CARE's expectations. The deterioration was mainly on account of the subdued performance of the rail EPC division in Q4FY20 (refers to the period January 1 to March 31) which was marked by slowdown in execution and lower operating margin. Furthermore, the company incurred significant amount of loss in the quarter and year ended March 31, 2020 due to provisions of Rs.149.92 crore on impairment of assets of the rail EPC division. The ratings also factor in the deterioration in the capital structure of the company due to increase in borrowings to finance the increased working capital intensity. This has also led to moderation in the liquidity profile of the company in the absence of infusion of stable long term funds either in the form of equity or debt.

The planned Rights issue of the company to raise equity of around Rs.200 crore to support liquidity has been delayed till September 2020 and now the company expects to raise Rs.150-200 crore. Accordingly, the raising of long term debt of about Rs.300 crore, which was planned after the equity infusion, is also delayed.

Meanwhile, the company has raised funds in the form of unsecured loans from related parties to the extent of Rs.67 crore as on March 31, 2020 and is also relying on short term loans from banks and Inter-corporate deposits to support the liquidity. On debt side, the company had sought for enhancement in its fund based working capital limits from banks of Rs.206 crore out of which sanction of Rs.115 crore has been received from the consortium lenders. The infusion of stable long term funds is critical to improve the liquidity profile of the company. 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, 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 to around 150 days.
- Infusion of long term funds in the form of equity and debt to improve liquidity profile on sustained basis while maintaining capital structure.

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

Negative Factors:

- Further elongation in operating cycle beyond 250 days
- Inability to raise resources to meet increased working capital requirement
- Increase in net overall gearing beyond unity.
- Decline in operating profitability (PBILDT margin < 7%) on a sustained basis

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.

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 and steel foundry (totaling Rs.1,575 crore), order book of KRN division (Rs.2,050 crore) and BPPPL division (Rs.525 crore) has led to a satisfactory order book position of around Rs.4,150 crore as on March 31, 2020. Further, there were orders of Rs.350 crore in other subsidiaries/JVs. The consolidated order book stood at Rs.4,500 crore as on March 31, 2020.

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 demand outlook of wagon industry and rail EPC

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. Government of India is expected to focus on improving the railway infrastructure and ensure faster development and completion of tracks, rail electrification, 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.

The company expects to garner significant orders from hydro-mechanical equipment division and railway EPC.

Key Rating Weaknesses

Decline in profitability in FY20 and net loss incurred due to exceptional cost

The company’s consolidated total operating income remained stagnant at Rs.1,836.02 crore in FY20 vis-à-vis Rs.1,860.78 crore in FY19. The revenue from Rail EPC segment witnessed de-growth due to slower order execution, though the revenue from heavy engineering division and steel foundry increased during the year. The revenue was also lower as company was not able to bill about Rs.50 crore of work done in the year end due to lockdown for Covid-19. The profitability of the segment was impacted as the company completed legacy orders of KRNL wherein there was increase in project cost which could not be passed on. The segmental PBIT of the rail EPC division declined to 1.9% in Q4FY20 as against 6.08% in Q3FY20 and 9.17% in Q4FY19.

The overall PBILDT margin declined to 8.69% in FY20 vis-a-vis 9.04% in FY19. The capital charges witnessed significant increase in FY20 primarily due to increase in finance cost and depreciation. The finance cost increased as a result of significant increase in debt to support the working capital intensity of operations. The increase in finance costs was also high due to company availing higher cost short term loans and ICDs/unsecured loans.

With stable operating profits and increase in capital charges, the PBT before exceptional items decreased from Rs.88.34 crore in FY19 to Rs.52.14 crore in FY20. Furthermore, the company incurred an exceptional cost of Rs.149.92 crore for provisions against trade receivables, unbilled revenue and contractual reimbursement expenses pertaining to completed legacy contracts of KRNL. After exceptional loss, the company incurred loss of Rs.97.78 crore before tax in FY20 vis-à-vis PBT of Rs.88.34 crore in FY19. However, due to deferred tax assets the net loss was lower at Rs.64.92 crore in FY20 vis-à-vis net profit of Rs.75.41 crore in FY19.

On a standalone basis, TexRail reported net loss of Rs.65.84 crore on total income of Rs.1,859.06 crore in FY20 as against net profit of Rs.75.28 crore on total income of Rs.1,879.29 crore in FY19.

Moderation in capital structure

The capital structure of the company, on consolidated basis, witnessed moderation due to increase in borrowings along with decrease in networth on account of net loss during FY20. The total debt outstanding increased significantly from Rs.676.07 crore as on March 31, 2019 to Rs.924.31 crore as on March 31, 2020 which primarily comprised of working capital borrowings and mobilisation advances for EOC division. Though the revenue remained at similar level, the increase in debt was mainly on account of increase in unbilled debtors due to milestone based billing. The overall gearing increased from 0.59x as on March 31, 2019 to 0.90x as on March 31, 2020.

The debt coverage indicators of the company also witnessed deterioration during FY20 with higher finance costs, stable operating profit level and lower cash accruals. The PBILDT interest coverage deteriorated from 2.39x in FY19 to 1.65x in FY20. Total Debt/GCA witnessed deterioration from 5.82x as on March 31, 2019 to 10.95x as on March 31, 2020 (excluding the impact of exceptional loss).

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 elongated to 227 days for FY20 from 203 days in FY19 due to increase in receivable days and inventory days. Despite the receivables remaining relatively stable in absolute terms, average collection period increased from 217 days in FY19 to 239 days in FY20 due to averaging effect (lower in absolute terms as on March 31, 2018). The average inventory period increased from 80 days for FY19 to 107 days for FY20. The inventory levels increased due to increase in WIP and finished goods at year end with lockdown towards end of March'20. The average creditor period stood at 119 days for FY20 vis-à-vis 94 days for in FY19.

The debtors (including retention) decreased from Rs.820.05 crore as on March 31, 2019 to Rs.644.50 crore as on March 31, 2020 mainly due to provisions of Rs.149.42 crore created during the year. Whereas, the unbilled debtors further increased from Rs.411.09 crore as on March 31, 2019 to Rs.541.02 crore as on March 31, 2020. The unbilled debtors are high for the company on account of milestone based payments for majority of Rail EPC orders.

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 and other sources of funds 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.

In the rail EPC segment also, the company is exposed to input price escalation which it may not be able to fully pass on.

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 expected as against repayment obligation. The company has term debt repayment obligation of Rs.14.2 crore in FY21. The company had cash and cash equivalents of Rs.15.92 crore as on March 31, 2020. The average maximum utilisation of working capital limits was high at about 80-90% during the last few months. The company had sought for enhancement in fund based limits by Rs.206 crore out of which it received Rs.115 crore from the consortium lenders. Further enhancement of limits is under process. Furthermore, the promoters have infused unsecured loans of Rs.67 crore as on March 31, 2020 to support liquidity. TexRail has also availed of moratorium on debt repayment in terms of Covid-19 Regulatory Package of the Reserve Bank of India from some of the lenders due to impact of Covid-19 on operations of the company.

The company has plans to raise equity of Rs.150-200 crore by September 2020 and additional long term debt along with enhancement in fund based limits which are expected to improve liquidity over the long term.

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 Pvt. Ltd.	51%
TexRail (SA) Pty Limited	100%
Texmaco Rail Systems Private Limited	100%
JVs	
Touax Texmaco Railcar Leasing Private Limited	50%
Wabtec Texmaco Rail Private Limited	40%
Associate	
Texmaco Defence Systems Private Limited	41%

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)	**FY19 (A)**	**FY20 (A)***
Total operating income	1860.78	1836.02
PBILDT	168.27	159.46
PAT	75.41	-64.92
Overall gearing (times)	0.59	0.90

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)*
Interest coverage (times)	2.39	1.65

*A: Audited * Based on published financials*

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 A2
Fund-based - LT-Cash Credit	-	-	-	635.00	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1906.99	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	July'24	41.63	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 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.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2	-	1)CARE A1 (25-Mar-20) 2)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)
2.	Fund-based - LT-Cash Credit	LT	635.00	CARE A-; Stable	-	1)CARE A+; Stable (25-Mar-20) 2)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)
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)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1906.99	CARE A-; Stable / CARE A2	-	1)CARE A+; Stable / CARE A1 (25-Mar-20) 2)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	41.63	CARE A-; Stable	-	1)CARE A+; Stable (25-Mar-20)	1)CARE A+; Stable	1)CARE AA-; Negative

						2)CARE A+; Stable (04-Nov-19)	(08-Jan-19)	(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.*

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