Titagarh Singapore Pte Limited

June 10, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	**106.08 (Rupees One Hundred Six crore Eight lakh Only)**	**CARE A- (SO); Negative [Single A Minus (Structured Obligation); Outlook: Negative]**	**Reaffirmed and Outlook Revised Stable to Negative**

Details of facilities in Annexure-1
@Backed by unconditional and irrevocable corporate guarantee provided by Titagarh Wagons Limited

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Titagarh Singapore Pte Ltd (TSPL) is primarily based on the credit enhancement in the form of 'unconditional and irrevocable corporate guarantee' provided by Titagarh Wagons Limited (TWL) for the bank facilities of TSPL.
The rating assigned to TWL continues to derive comfort from established and strong market position of the group in the domestic wagon manufacturing industry, international presence through foreign acquisitions and joint ventures, foray into manufacturing of specialised wagons and healthy order book position providing revenue visibility to the group.
The rating also takes into account the moderation in capital structure and subdued financial performance of the group in foreign operations, albeit improvement on a consolidated level in FY19 (refers to the period April 1 to March 31).
The rating, however, continues to be constrained by the working capital intensive nature of operations, risk associated with tender based business, and increased dependence on Indian Railways (IR) for domestic operation.
The rating also takes note of approval of draft scheme for merger of two subsidiary companies namely Cimmco Limited (Cimmco) and Titagarh Capital Private Limited (TCPL), and also Titagarh Enterprises Limited (TEL), a promoter group entity with TWL by the company's Board of Directors subject to relevant approvals. The appointed date of the scheme shall be April 1, 2019.
CARE has taken a consolidated view on TWL while assigning the rating and hence, the merger will not have significant impact on the rating.

Outlook: Negative

The 'Negative' outlook reflects the continued weak performance of the overseas subsidiary, i.e., Titagarh Wagons AFR, France (TWA). TWA is having cash shortage in the short term and has filed an application before Commercial Court of Paris to initiate the Rehabilitation Process. Consequently, TWL has provided for impairment in the full value of investment in TWA of Rs.48.84 crore and TSPL of Rs.58.75 crore (which in turn holds equity shares in TWA). TWL has also made impairment provision in respect of trade receivables of Rs.19.37 crore from TWA. The above development is not in line with CARE's expectation and hence, CARE would continue to monitor the developments in this regard. The outlook may be revised to 'Stable' on favorable outcome of the Rehabilitation Process of TWA and overall improvement in the performance of overseas operations.

Detailed description of the key rating drivers

The detailed description of the key rating drivers of the Guarantor is as follows:

Key Rating Strengths

Established and strong market position in the wagon manufacturing industry and international presence through foreign acquisitions and joint ventures

Titagarh group is one of the largest private sector wagon manufacturers in India with a capacity to manufacture 8,400 wagons p.a. (including Cimmco Ltd's (Cimmco) capacity of 2,400 wagons). The group has got 23% of the wagon order of IR in December'2018. Over the years, the group has also diversified its presence outside India by acquiring France-based freight wagon company, Arbel Fauvet Rail through Titagarh Wagons AFR (TWA) in 2010. TWA has a capacity to manufacture 2,000 wagons per annum.
In July 2015, the group acquired Italy-based metro coach manufacturer Firema Trasporti SpA through Titagarh Firema Adler SPA (TFA).
Furthermore, TWL has also entered into a 50:50 JV agreement with one of a leading supplier of bridges globally, Matiere SAS France to bid for tenders for construction of uni-bridges.

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

Foray into manufacturing of specialized wagons and coaches

The group has forayed into manufacturing of specialized coaches for commodity-specific wagons in France and manufacturing of coaches for metro & high speed train through various companies.

The group has further forayed into manufacturing range of products for defence sector, manufacture farm machinery (tractors), heavy earth moving and mining equipment division, bailey type modular bridges and ship-building. The group has also received orders from defence, shipping and modular bridge division which has broadened its customer profile.

Further, TWL is well positioned to bid for large order for metro coaches and double decker coaches by virtue of its overseas acquisitions.

The company has successfully launched three ships for the Indian Navy and National Institute of Ocean Technology.

Segment-wise sales and segment profit is as follows:

Particulars	Wagons & Coaches		Specialized Equipment & Bridges		Shipbuilding		Other	Total Revenue
	Sales	Segment Profit	Sales	Segment Profit	Sales	Segment Profit	Sales	
FY19	1,505	-8	74	10	132	32	0	1,711
FY18	1,187	-116	42	4	35	5	8	1,272
FY17	1,658	72	72	14	-	-2	9	1,739

Healthy order book position providing revenue visibility

The order book position of the group remained healthy at approximately Rs.5,500 crore as on May 31, 2019 (Rs.5,431 crore as on February 28, 2019), representing 3.17x of consolidated total operating income in FY19. This is on account of receipt of wagon orders from IR on December 10, 2018 for manufacture and supply of 5,058 wagons amounting to Rs.1,561 crore. The order is to be executed by February 28, 2020. Moreover, TFA received orders for the manufacture and supply of 54 units of Metro for Ferrovia Circumetnea, Italy amounting to Euro 216 million (approx. Rs.1,740 crore) on February 18, 2019. This apart, Cimmco had received new order worth Rs.70 crore in March 2019.

Key Rating Weaknesses

Weak financial performance of the group albeit improvement in FY19

TWL: TWL's operational performance witnessed improvement in FY19 vis-à-vis FY18 in view of ramp-up of production for execution of large orders of Indian Railways received in December 2017 and increased revenue from shipbuilding. Though the operating profitability of the company increased with increase in turnover, the PBILDT margin remained moderate. The interest cost increased during the year with increase in working capital borrowings. The PBT before exceptional items of the company was Rs.39.59 crore in FY19 as against marginal loss in FY18. However, the company had exceptional expense of Rs.126.95 crore in Q4FY19 as TWL has provided for impairment in the value of investment in TWA of Rs.48.84 crore and in TSPL of Rs.58.75 crore (TSPL in turn holds equity shares in TWA). Also there is an impairment provision in respect of trade receivables of Rs.19.37 crore from TWA. Consequently, TWL reported net loss of Rs.82.87 crore in FY19 as against net profit of Rs.2.92 crore in FY18.

Further, with large order bagged in December 2018 from IR, the Company is well placed to achieve higher turnover and improved profitability going forward.

Cimmco: Cimmco's performance improved in FY19 vis-à-vis FY18 with higher execution of the order resulting in increased sales and operating profitability due to better absorption of fixed overheads.

TFA, Italy: TFA's performance was impacted in FY18 in view of one-time provision on account of re-estimation of cost of certain legacy contracts (Rs.31 crore) that were inherited at the time of acquisition of the business from Firema Trasporti SpA, Italy and provision of estimated penalties (Rs.49.6 crore) due to expected delay in supply of trains against contract that were inherited. The loss (before tax and exceptional item) reduced substantially from Rs.95 crore in FY18 to Rs.12 crore in FY19 due to absence of one-time provision. Moreover, TFA has taken several cost optimisation measures by consolidating the operations from 4 sites to 2 sites. The new order worth Rs.1,740 crore, received in February 2019, is expected to benefit the Company in long-run.

TWA, France: The performance of TWA continued to remain weak due to technical problems identified in bogies and low margin contracts which impacted the operations. As a result, TWA is having cash shortage in the short term and has filed an application before Commercial Court of Paris to initiate the Rehabilitation Process. Consequently, TWL has provided for impairment in entire investment/trade receivable in TWA (directly and through TSPL). As maintained by the management,

Moderation in capital structure in FY19

The overall gearing ratio of the group witnessed deterioration from 0.72x as on March 31, 2018 to 1.06x as on March 31, 2019 on account of increase in total debt and loss in FY19. Though interest coverage improved during FY19 due to operational profit, it continued to remain below unity. Further, the total debt of group increased from Rs.624 crore as on March 31, 2018 to Rs.895 crore (abridged result) as on March 31, 2019 to fund the incremental working capital requirements.

Working capital intensive nature of operations
The nature of business of TWL entails considerable dependence on working capital requirements both in the form of fund-based and non-fund based borrowings. Further, the IR changed its policy in 2017-2018 to do away with free supply items for wagons. Hence, now the wagon manufacturing companies will have to identify RDSO approved vendors to take supplies, keep stock and fix credit terms. The working capital requirements are high due to relatively longer processing period necessitating high inventory holding period and elongated collection period. The working capital requirement of the company is mainly funded through a mix of creditors, customer advances (non-interest bearing in nature) and bank borrowings.

Risk associated with tender based business
The group receives majority of its orders from IR and other government and semi-government entities for both domestic and foreign operations based on tender. Hence, the revenue is dependent on the company’s ability to bid successfully for these tenders. Furthermore, there are various players operating in the segment who compete for the orders. Profitability margins come under pressure because of this competitive and tender based nature of the industry.

Increased dependence on Indian Railways for domestic operation
The dependence of domestic operation of the group upon the orders from IR, the largest consumer of railway wagons in India, has increased with receipt of orders in December 2018. The order book as on May 31, 2019 comprised of 33% orders from Indian Railways, which on one hand has given significant revenue visibility, however, has increased dependence on IR.
However, the group has also diversified its revenue base by increasing its presence in defense sector, private sector and export market.

Industry Outlook
The outlook of the wagon industry is stable and mainly dependent on the demand from the IR and the budgeted allocation for such outlays. The IR is set to procure around 1,00,000 wagons worth Rs.200-250 billion in next 5 years. Though, the demand is poised to grow, the prices of wagons are expected to come down by 10-20% (despite increase in RM price) due to bulk of order being through reverse auction mode. Moreover, with discontinuance of free supplies from IR and non-availability of critical components from Research Design & Standards Organisation (RDSO) approved vendors, the execution of orders remains a challenge. The orders from private parties and refurbishing orders from IR should continue going forward.

Liquidity Analysis
The group had sufficient cash and bank balance of ~Rs.120 crore as on March 31, 2019. As on March 31, 2019, TWL (on a standalone basis) had a cash and bank balance of Rs.18 crore with nil debt repayment obligations. Further, the average fund based working capital utilization for the company remained at around 80% during the last 12 months. With regard to the foreign operations, the group has been sanctioned working capital demand loan which shall be sufficient to meet its foreign operations for FY20. In case of any shortfall, TWL shall fund the shortfall. Overall, the group has satisfactory liquidity position with a debt repayment obligation of Rs.20 crore in FY20. However, due to weak operational performance, TWA is facing short term liquidity issue and has filed an application for Rehabilitation Process. The approval of rehabilitation process shall remain crucial.

Analytical approach:
Assessment of credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by TWL for the bank facilities of TSPL.
For analyzing TWL, CARE has taken consolidated view of all the 6 subsidiaries and a joint venture of TWL (together referred to as Titagarh group), as they are engaged in similar line of business and have financial linkages including corporate guarantees extended by TWL for facilities availed by various subsidiaries. The companies considered for consolidation are as follows:

Company	% holding by the group
Titagarh Capital Pvt Ltd	100%
Cimmco Limited	74.77%
Titagarh Singapore Pte Ltd	100%
Titagarh Wagons AFR, France	100%
Titagarh Firema Adler SPA, Italy	100%
Matiere Titagarh Bridges Pvt Ltd	50%
Titagrh Mermec Pvt Ltd	50%

Applicable Criteria
[CARE’s Policy on Default Recognition]
[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
TSPL, incorporated in 2008 in Singapore, is a wholly owned subsidiary of TWL. TSPL is an investment company of the Titagarh group which holds 98.2% stake in TFA and 47.7% stake in TWA.

About the Guarantor (TWL)
TWL, incorporated in July 1997, is promoted by Mr. Jagdish Prasad Chowdhary. The company manufactures various types of freight wagons, bailey bridges, heavy earthmoving and mining equipment, steel and iron castings and other products. The company has three manufacturing facilities (two at Titagarh and one in Uttarpara, West Bengal). TWL has a capacity to manufacture 6,000 wagons, 36 electric multiple unit (EMU) coaches and 30,000 MTPA of casting iron products.
Cimmco Ltd, a subsidiary of TWL has a capacity to manufacture 2,400 wagons per annum at its factory in Bharatpur (Rajasthan).
Titagarh Agrico Private Ltd (merged with Cimmco), is engaged in manufacturing of farm equipment in Bharatpur. TAPL has a manufacturing capacity of 2,400 tractors per annum.
Over the years, the group has also diversified its presence outside India by acquiring France-based wagon manufacturer Arbel Fauvet Rail in 2010 and Italy-based metro coach maker Firema Trasporti SpA in 2015.
The day to day operations of the group is managed by Mr. Umesh Chowdhary (son of Mr. Jagdish Prasad Chowdhary).

Brief Financials – Consolidated (Rs. Crore)	FY18 (A)	FY19 (Published Results)
Total Operating Income	1,282.74	1,734.19
PBILDT	-81.53	57.36
PAT	-147.23	-22.53
Overall gearing (times)	0.72	1.06
Interest coverage (times)	-1.85	0.84

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

Rating History (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
Fund-based - LT-Term Loan	-	-	October'23	106.08	CARE A- (SO); Negative

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.	Fund-based - LT-Term Loan	LT	106.08	CARE A- (SO); Negative	1)CARE A- (SO); Stable (05-Apr-19)	1)CARE A (SO); Stable (07-Jun-18)	1)CARE A+ (SO); Stable (06-Feb-18)	1)CARE A+ (SO); Stable (20-Jan-17)

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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About CARE Ratings:

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