Titagarh Singapore Pte Ltd

April 05, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1] @	Rating Action
Long-term Bank Facilities	**106.08 (reduced from 120.00) (Rupees One Hundred Six crore Eight lakh Only)**	**CARE A-(SO); Stable (Single A Minus (Structured Obligation); Outlook: Stable)**	**Revised from CARE A (SO); Stable (Single A (Structured Obligation); Outlook: Stable)**

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 revision in the rating is on account of continued weak financial performance of the group in 9MFY19 with significant losses in foreign operations. The rating of 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, and foray into manufacturing of specialised wagons. Ratings further draw strength from substantially improved order book position.

The rating, however, continues to be constrained by the working capital intensive nature of operations, risk associated with tender based business, moderation in capital structure in FY18 and increased dependence on Indian Railways (IR) for domestic operation.

The ability of the group to improve profitability along with efficient management of working capital would remain the key rating sensitivities. Further, continuous flow of orders and the timely execution of orders received would also remain one of the key rating sensitivities.

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.

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 its first ship for the Indian Navy.

Segment-wise sales and segment profit is as follows:

Particulars	Wagons & Coaches		Specialized Equipment & Bridges		Shipbuilding		Others	Total Revenue
	Sales	Segment Profit	Sales	Segment Profit	Sales	Segment Profit	Sales	
FY18	1,187	-116	42	4	35	5	8	1,272
FY17	1,658	72	72	14	-	-2	9	1,739

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

Significant improvement in order book position providing revenue visibility

The order book position of the group increased significantly to Rs.5,431 crore as on February 28, 2019 (Rs.2,600 crore as on September 30, 2018), representing 4.23x of consolidated total operating income in FY18. 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 has received new order worth Rs.70 crore in March 2019 which will further improve Cimmco's production.

Key Rating Weaknesses

Weak financial performance of the group in FY18 and 9MFY19

TWL: TWL's performance deteriorated in FY18 due to delay in release of wagon orders by IR. TWL's performance witnessed improvement in 9MFY19 vis-à-vis 9MFY18 in view of ramp-up of production for execution of large orders of Indian Railways received in Dec.2017. However, the PBILDT margin moderated in view of execution of some of the fixed cost orders of private players where the increase in steel prices could not be passed on. Further, with large order bagged in Dec.2018 from IR, the Company is well placed to achieve higher turnover and improved profitability going forward.

Cimmco: Cimmco's performance deteriorated in 9MFY19 vis-à-vis 9MFY18. The execution remained very low in H1FY19 despite IR orders in hand, due to non-availability of critical components. In order to improve the operations, the company has appointed Mr. Anil Agarwal as the MD & CEO who has been entrusted with the day to day affairs of the company. With the close monitoring of the overall activities, the performance witnessed improvement on q-o-q basis in Q3FY19. Performance is accordingly expected to improve going forward, after continuous losses in past few years.

TFA, Italy: TFA's performance deteriorated in FY18 with net loss of Rs.79 crore and cash loss of Rs.63 crore. The deterioration is 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 losses reduced substantially in 9MFY19 (to Rs.25 crore) due to absence of one-time provision. Further, there have been various cost reduction measures such as reduction of manpower and replacement of high cost loan with low cost loan, which led to significant curtailment of the loss. The new order worth Rs.1,740 crore, received in Feb.2019, is expected to benefit the Company in long-run.

TWA, France: The performance of FY18 witnessed decline with net loss of Rs.42 crore and cash loss of Rs.28 crore due to technical problem in product, temporarily impacting production and execution of negative margin order taken by TWA to enter stainless steel wagon market. The performance is expected to remain weak in FY19, with marginal improvement in FY20.

Moderation in capital structure in FY18

The overall gearing ratio of the group witnessed deterioration from 0.40x as on March 31, 2017 to 0.72x as on March 31, 2018 on account of increase in total debt and loss in FY18. This also led to deterioration in the debt protection metrics in FY18. Further, the total debt of TWL increased from Rs.99 crore as on March 31, 2018 to Rs.151 crore as on September 30, 2018 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 average inventory days improved slightly from 143 days in FY17 to 132 days in FY18 on account of reduction in inventory from Rs.537 crore as on March 31, 2017 to Rs.442 crore as on March 31, 2018. The average collection period deteriorated from 49 days in FY17 to 73 days in FY18 on account of increase in total receivables as on March 31, 2018 along with decline in turnover in FY18. The operating cycle of the group remained high and deteriorated slightly from 99 days in FY17 and 106 days in FY18. 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 Dec.2018. The proportion of sales to IR declined to 4.9% in FY18 from 16.6% of total operating income in FY17 on account of decline in sales to IR (by 78%) in FY18. This was mainly due to significantly higher overseas business through TFA. However, the order book as on February 28, 2019 comprised of 31% orders from Indian Railways, which on one hand has given significant revenue visibility, however, has increased dependence on IR.

Further, 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

As on date, the group has a sufficient cash and bank balance of Rs.140 crore. TWL has a cash and bank balance of Rs.50 crore with nil debt repayment obligations. Further, the average fund based working capital utilization for the company remained at around 79% during the last 12 months ending February 2019. 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.35 crore in FY20.

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%

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

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, a subsidiary of TWL, 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)	FY17 (A)	FY18 (A)

Brief Financials – Consolidated (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	1,740.74	1,282.74
PBILDT	135.36	-81.53
PAT	27.43	-147.23
Overall gearing (times)	0.40	0.72
Interest coverage (times)	4.32	-1.85

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

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 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 2023	106.08	CARE A- (SO); 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 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.	Fund-based - LT-Term Loan	LT	106.08	CARE A- (SO); Stable	1)CARE A (SO); Stable (07-Jun-18)	1)CARE A+ (SO); Stable (06-Feb-18)	1)CARE A+ (SO); Stable (20-Jan-17)	-

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