Titagarh Singapore Pte Ltd

October 03, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities@	**101.12 (Rupees One Hundred One crore and Twelve lakh Only)**	**CARE BBB+ (CE): Stable (Triple B Plus (Credit Enhancement); Outlook: Stable)**	**Revised from CARE A- (CE); Negative(Single A Minus (Credit Enhancement); Outlook: Negative)**

Details of facilities in Annexure-1

@Backed by unconditional and irrevocable corporate guarantee provided by Titagarh Wagons Limited

Unsupported Rating[2]	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)

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 takes into account the loss incurred by TWL in FY19 (refers to the period April 1 to March 31) and Q1FY20 on account of unexpected write-off of investments in its overseas subsidiary, Titagarh Wagons AFR, France (TWA) along with continued subdued operating profitability of domestic and overseas operations. The rating revision also factors in the significant deterioration in capital structure as on March 31, 2019 with increase in debt level.

The rating continues to derive comfort from the established track record 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, healthy order book position providing revenue visibility and stable outlook of wagon industry. The rating also takes note of the marginal improvement in operating profitability in Q1FY20.

The rating, however, continues to be constrained by the exposure to volatility in availability and prices of raw materials, working capital intensive nature of operations, risk associated with tender based business and order & sales concentration to Indian Railways (IR) for domestic operation, though the company is gradually trying to diversify its order book with foray into metro coach segment.

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) 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.

The ability of the company to timely execute the orders, improve its profitability and capital structure and tie-up of additional limits required to execute the increase in order book shall remain key rating sensitivities.

Detailed description of the key rating drivers of TWL

Key Rating Strengths

Established track record 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 capacity of 2,400 wagons). The group received 23% of the wagon order of IR in December 2018. Over the years, the group diversified its presence outside India by acquiring Italy-based metro coach maker Firema Trasporti SpA (TFA) in 2015. The credentials of TFA enabled TWL to get high value order of Rs.1125 crore from Pune Metro in August 2019.

TWL also has a 50:50 JV agreement with one of the leading supplier of bridges globally, Matiere SAS France to bid for tenders for construction of unibridges. It has also formed a JV with Mermec SpA, Italy for venturing into railway signaling work.

The group also held 100% stake in TWA, the assets pertaining to which has been written off in FY19 and Q1FY20 due to losses and unviable operations.

Diversified product portfolio along with foray into manufacturing of specialized wagons

The group has forayed into manufacturing of coaches for metro and high speed train through acquisition of TFA, Italy in 2015.

TWL 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 shipbuilding. The group has also received orders from defence, shipping and modular bridge division which has broadened its customer profile. The

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

[2]*As stipulated vide SEBI circular no. SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019*

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

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

The revenue from wagons contributed 88%, specialized equipment & bridges contributed 4% and shipbuilding contributed to 8% of total revenue in FY19.

Healthy order book position providing revenue visibility

The consolidated order book as on June 30, 2019 stood at Rs.4,479 crore representing 2.57x of consolidated total operating income in FY19. Further, TWL in consortium with its Italian subsidiary received a new order from Maharashtra Metro Rail Corporation Limited (MMRCL) for 'Design, Manufacture, Supply, Testing, Commissioning of passenger Rolling Stock (Electrical Multiple Units) and Training of Personnel' for Pune Metro Rail Project in August 2019. The order is for manufacture and supply of 102 Metro coaches at a contract value of Rs.1,125 crore. Including the same, the order book increased to Rs.5604 crore, representing 3.21x of consolidated total operating income in FY19.

Stable outlook of wagon industry

IR is the largest consumer of wagons. The outlook of the wagon industry is mainly dependent on the demand from the IR 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, metal fixtures, pipes, 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 issued by IR and recent revision in GST structure is also expected to benefit the wagon manufacturers.

Key Rating Weaknesses

Write-off of investments in TWA and continued subdued operating profitability

The consolidated total operating income increased by about 35% during FY19 due to increase in revenue of all the three segments of wagons & coaches, specialized equipment & bridges and shipbuilding. The operating profit, though improved during the year with higher revenue leading to better fixed cost absorption and higher contribution from shipbuilding division, continued to remain low. TWL incurred loss before tax of Rs.17.17 crore in FY19 excluding the loss from impairment of investment in TWA. Overall, the company incurred consolidated loss of Rs.22.53 crore in FY19 after booking impairment loss of Rs.38.33 crore for TWA. However, the same has reduced from loss of Rs.147.23 crore in FY18.

The performance of TWA had remained modest over the years due to technical problems identified in bogies and low margin contracts which impacted the operations. During FY19, the company had implemented a conciliation proceeding which was approved by Commercial Court of Paris (CCP). However, the performance could not improve and the company continued to incur cash losses. Accordingly, TWA started a second conciliation process in April'19 which projected a turnaround in FY21 subject to funding as per business plan from stakeholders. However, in view of uncertainty of funding, TWA decided to stop conciliation and has filed an application before CCP to start the rehabilitation process. Consequently TWL had provided for impairment in investment in TWA in Q4FY19.

Subsequently, CCP, in August, 2019, approved a plan for transfer of business and assets of TWA to another bidder and ordered for liquidation of TWA. Accordingly, the net asset value of TWA was derecognised from the consolidated financial statements of TWL in Q1FY20. The net asset value of TWA stood at Rs.51.22 crore as on March 31, 2019.

TWL has given a corporate guarantee for debt of 4.2 mn Euro (Rs.32.9 crore) availed by TWA for which it is liable. The outstanding of such debt was Rs.26.63 crore (3.4 mn Euro) as on Mar.31, 2019. Other than the liability towards the aforesaid loans, CARE expects no further losses on account of TWA.

In Q1FY20, the consolidated performance improved as compared to Q1FY19. The operating profit increased from Rs.3.85 crore in Q1FY19 to Rs.26.30 crore in Q1FY20. Further, PAT earned from continuing operations was Rs.9.55 crore in Q1FY20 vis-à-vis net loss of Rs.6.30 crore in Q1FY19. However, TWL incurred consolidated loss of Rs.41.67 crore in Q1FY20 on account of de-recognition of exposure in TWA, as stated earlier.

Deterioration in capital structure

The consolidated overall gearing increased from 0.72x as on March 31, 2018 to 1.27x as on March 31, 2019 on account of increase in working capital debt and term loan availed in Italy to replace short term debt as well as reduction in networth due to write-off of TWA. Though interest coverage ratio improved during FY19 due to higher operational profit, it continued to remain below unity. However, adjusting for impact of write-off on account of TWA, interest coverage ratio stood at 1.28x. Going forward, the capital structure is expected to improve on account of accretion of profits to reserves.

Exposure to volatility with regard to availability and price of raw material

Earlier, the IR 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 and the wagon manufacturers have to rely on approved vendors for the supply of major raw materials such as steel, Cartridge Tapered Roller Bearings (CTRB), wheel sets, etc. There has been shortage of certain raw materials like wheel sets which has led to delay in execution of orders by TWL. Further, the company is exposed to significant volatility in prices of raw materials which it may not be able to pass on fully.

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 due to relatively longer processing period necessitating high inventory holding period and elongated collection period. Further, working capital requirement has increased due to discontinuation of free supply items for wagons. TWL funds the same through a mix of creditors, customer advances (non-interest bearing in nature) and bank borrowings. With increase in scale of operations, the working capital borrowings have increased. Further, the company is contemplating to increase its fund based and non-fund limits to meet the increasing scale of operations. Increase in such limits in a timely manner is a key rating sensitivity.

Increased dependence on IR for domestic operation

Wagon manufacturers largely depend on orders from IR for their revenue. The proportion of sales to IR out of total operating income increased significantly from 4.92% in FY18 to 30.50% in FY19 on account of increase in sales to IR (by 7.43x) in FY19 with receipt of orders in December 2018.

In order to partly mitigate the risk, the group has diversified its revenue base by increasing its presence in defense sector, private sector and export market. Further, the group has diversified its customer profile with foray into metro coaches.

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.

Liquidity Analysis – Adequate

The company has an adequate liquidity position with cash and bank balance of Rs.11 crore as on June 30, 2019 against nil debt repayment obligation in FY20 on a standalone basis. The average fund based working capital utilisation of the company stood at 83.35% during the last 12 months ending August 2019. Further, the consolidated cash and bank balance was Rs.63 crore as on June 30, 2019 against a debt repayment obligation of Rs.26.5 crore in FY20. Also, the group has an aggregate unutilized fund based limits of ~Rs.34 crore as on August 31, 2019.

TWL is contemplating to increase its fund based limits from Rs.132.5 crore to Rs.200 crore and non-fund based limits from Rs.600 crore to Rs.1000 crore which has been assessed by the lead banker.

Detailed Rationale & Key Rating Drivers of Unsupported Rating

The unsupported rating assigned to the bank facilities of TSPL draws strength from the long and established track record of the promoters in wagon industry, demonstrated fund support provided by the group enabling TSPL to meet its debt repayment obligations on time as well as make prepayments and improvement in financial performance and order book of TFA, the major investment of TSPL. The rating also takes into account liquidation of TWA restricting consolidated losses as well as entire debt in the books of TSPL as on July 31, 2019 having backing of corporate guarantee of TWL. Further, management has articulated its intent to repay the entire loan of TSPL in the current year by availing loan in TWL.

The rating is however, constrained by the holding company status of TSPL with no business operations, weak financial performance as a result of losses booked due to write-off of investments in TWA and moderate capital structure.

Continued fund support from group entities for debt servicing and performance of the entity in which TSPL has invested shall remain key rating sensitivity.

Detailed description of the key rating drivers – Unsupported Rating

Key Rating Strengths

Long experience of the promoters in Wagon Industry

TSPL is a wholly owned subsidiary of TWL. Titagarh group is one of the largest private sector wagon manufacturers in India with a capacity to manufacture 8,400 wagons p.a. (consolidated) and has a long and established track record.

The group has forayed into manufacturing of coaches for metro and high speed train through acquisition of TFA, Italy in 2015.

Demonstrated support from the group

Being the investment company, the company does not have its own business operations and it is dependent on its group entities for fund support to meet its debt repayment obligations.

The company had availed debt to provide advances to TFA and TWA. The company repaid Euro 13.4 million term loan in FY19 (amounting to ~Rs.106 crore) out of receipt of loans which was advanced to TFA amounting to Euro 15.05 million (amounting to ~Rs.119 crore). In the current year, the company has paid off its short term loan amounting to Rs.62.66 crore out of fresh loan taken by the parent company and advanced to TSPL. The group has demonstrated continuous support to TSPL to meet its debt repayment obligations.
The performance of TFA, the major investment of TSPL, witnessed improvement in FY19. Further, TFA got an order of Rs.1,125 crore in consortium with TWL in August 2019.

Key Rating Weaknesses
Dependence on group for debt servicing with weak financial performance and no major business operations in the company
TSPL was incorporated in August 2008 as a privately held investment company at Singapore. The company held 98.2% stake in TFA and 47.7% stake in TWA. However, the investment in TWA was written off by the group in FY19. TSPL currently holds 98.2% stake in TFA with an investment value of Rs.194.51 crore as on March 31, 2019. Apart from holding investments, TSPL does not have any operations.
The revenue earned by the company over the years comprises mainly of interest income on advances to group entities and gain on foreign exchange fluctuations. The company incurred a net loss of Rs.67.22 crore in FY19 including exceptional loss of Rs.64.88 crore on account of provision created for carrying value of investments and receivables relating to TWA. The company's interest coverage ratio remained below unity. The interest servicing was met out of receipt of loans advanced from subsidiary company (TFA, Italy).

Moderate capital structure with dependence on group for debt servicing
The capital structure of the company remained moderate with overall gearing ratio of 2.40x as on March 31, 2019 (2.02x as on March 31, 2018). However, out of debt outstanding of Euro 21.39 mn as on Mar.31, 2019, the company has already repaid Euro 8.76mn and the remaining debt is also expected to be transferred to TWL, the process for which is in advanced stage.
The company is completely dependent on support from the group for meeting its debt servicing obligations.

Liquidity Position - Adequate
TSPL had cash and bank balance of Rs.7.12 crore as on March 31, 2019 against a debt repayment obligation of Rs.13.5 crore in FY20. In the current year, the company has paid off its short term loan amounting to Rs.62.66 crore out of fresh loan taken by the parent company and advanced to TSPL. Further, the group is expected to continue to support TSPL to meet its debt repayment obligations going forward.

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 with all the subsidiaries and 2 joint ventures of TWL, 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.
Detail of consolidated entities is as under:

Sl. No.	Name of Subsidiary and Associates	% of ownership as on March 31, 2019
1.	Titagarh Capital Limited	100%
2.	Cimmco Limited	79.37%
3.	Titagarh Firema S.p.A., Italy	100%
4.	Titagarh Wagons AFR, France*	100%
5.	Titagarh Singapore Pte Ltd	100%
6.	Matiere Titagarh Bridges Pvt Ltd	50%
7.	Titagarh Mermec Private Limited	50%

*The investments in TWA have been written off and the same shall not be considered for consolidation from FY20 onwards.
The unsupported rating is based on standalone assessment of TSPL while factoring linkages with the group.
Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy of Default Recognition]
[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 98.20% stake in TFA. It also held 47.70% stake in TWA, the investment in which has been written off in FY19.

About the Guarantor

TWL, incorporated in July 1997, was promoted by Mr. Jagdish Prasad Chowdhury. The company manufactures various types of freight wagons, bailey bridges, 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 6000 wagons, 36 Electric Multiple Units (EMU) coaches and 30,000 MTPA of cast iron products.
Cimmco, a subsidiary of TWL has a capacity to manufacture 2,400 wagons per annum at its factory in Bharatpur (Rajasthan). It also manufactures farm equipment in Bharatpur.
Over the years, the company along with its wholly owned subsidiary investment company TSPL has acquired various foreign and domestic entities with a view to grow inorganically across various geographies as well as to have access to technology which enabled them to pre-qualify for metro project tenders in India.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	1282.74	1726.91
PBILDT	-81.53	50.19
PAT	-147.23	-22.53
Overall gearing (times)	0.72	1.27
Interest coverage (times)	-1.85	0.73

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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	-	-	September 2023	101.12	CARE BBB+ (CE); Stable
Un Supported Rating	-	-	-	0.00	CARE BBB-; 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.	Fund-based - LT-Term Loan	LT	101.12	CARE BBB+ (CE); Stable	1)CARE A- (SO); Negative (10-Jun-19) 2)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)
2.	Un Supported Rating	LT	0.00	CARE BBB-; Stable	-	-	-	-

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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