Transrail Lighting Limited

January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.00	**CARE BBB; 'Stable' (Triple BBB; Outlook: Stable)**	**Assigned**
Total	**Rs.25.00 (Rupees Twenty Five crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Transrail Lighting Limited (TLL) factors in improved operational performance in FY17 (refers to period April 1 to March 31) consequent to induction of the new promoters (Godha Family through Ajanma Holdings Private Limited who are also promoters of IPCA Laboratories Ltd, rated CARE AA/CARE A1+, 'Stable') and consequent infusion of equity into TLL. With enhanced access to bank finance and steady order inflows, TLL has demonstrated healthy contract execution translating into positive operating cash flows in FY17 and H1FY18. Further, the healthy order book of ~Rs.3,550 crore as on September 30, 2017 (2.93x FY17 revenues) offers revenue visibility in the medium term. Favourable demand prospects for T&D EPC sector, established business presence combined with experienced senior management are other credit positives.

However, the aforesaid rating strengths are tempered by high gearing ratio i.e.2.55x at the end of September 2017 stretched working capital cycle attributed to large quantum of retention money and elevated levels of competitive intensity in the T&D sector. While TLL has been able to overcome its past liquidity issues, its ability to generate sustainable cash flows by timely execution of order book remains critical from credit perspective.

Going forward, TLL's ability to achieve geographical as well as sectoral diversification, while improving its working capital cycle and scale up its operations remain key rating sensitivities. Any significant debt funded capex or unexpected deterioration in its business prospects are other key rating monitorables.

Detailed description of the key rating drivers

Key Rating Strengths

Well established business, experienced management under new promoters led to operational improvement

Transrail Lighting Limited (TLL) was erstwhile a part of Gammon India Limited (GIL, rated CARE D). As a part of GIL's debt restructuring, the T&D business was carved out and transferred to separate company namely TLL. Consequently, as per Business Transfer Agreement (BTA) dated October 27, 2015, and scheme of arrangement approved by National Company Law Tribunal (NCLT) on March 30, 2017, Ajanma Holding Pvt. Ltd. (AHPL), i.e. promoters belonging to Godha Family was brought in as strategic investor by the Consortium lenders through Strategic Debt Restructuring (SDR) process. The new promoters have brought in required funds to bridge liquidity issues and helped TLL raise necessary resources from the lenders. With the help of existing management possessing significant experience in core T&D business, the company has been able improve order execution from PGCIL (rated CARE AAA/A1+) and bag fresh orders from State Electricity Boards and private players and execute these orders in timely manner. This has helped in healthy cash flow generation resulting into improved operational performance in short span of time.

Strong and diversified order book position lends medium term revenue visibility

As on September 30, 2017, TLL's order book position stood at ~Rs.3,550 crore (2.93x FY17 revenues), which is to be executed over 18-24 months. This provides robust revenue visibility over the medium term. Further, geography-wise, the order book comprises 75% domestic and balance as export orders. PGICL constitutes as major client contributing ~17% of the order book. Further, in the export orders, TLL bids selectively for orders funded by multilateral agencies or where sales are entirely backed by Letter of Credit (L/C), thereby limiting credit risk for the company.

Operational performance improvement leading to moderate debt coverage indicators

After equity infusion by AHPL and better access to financial resources, TLL's operational performance witnessed significant improvement with increased order execution while maintaining rigid inventory and controlled debtor management. Consequently, the company's revenue increased by over 4 times YoY basis to Rs.1,211 crore in FY17 on account of higher order inflows and corresponding timely execution of the same. As a result, TLL's overall gearing ratio at standalone level has moderated to 4.91x at end of FY17 and 2.55x by end of Sep-17.

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

Key rating weaknesses:
High working capital intensity due to stretched working capital cycle

TLL is into Transmission and Distribution (T&D) EPC business, which is inherently working capital intensive. Nevertheless, the working capital cycle at end of FY17 still remained at elevated levels of 158 days primarily on account of stretched receivable period of 188 days. The company's billing cycle is on milestone completion basis, with payment terms such as 10% in advance, 80% on progress and balance 10% as retention money. However, TLL's working capital cycle remain stretched on account of higher proportion of execution of legacy orders, where the retention money is expected to be released in FY18. TLL has faced liquidity issues in the past due to legacy dues of Rs.50-60 crores from delayed order book execution. However, the company received liquidity support from new promoters and is able to execute projects faster and generate cash flows to repay these dues and regularize interest payments. Thus, optimization of working capital cycle leading to improved liquidity situation remains key monitorable for TLL.

High gearing levels moderated after equity infusion along with improved working capital cycle

As per the BTA and scheme of arrangement, AHPL has agreed to invest total equity capital of Rs.50 crore into TLL for consideration of 75% stake by August 2017. The promoters have invested Rs.2.32 crore as equity capital in FY14. Further, they have brought in Optionally Fully Convertible Debentures (OFCDs) totaling Rs. 47.70 crore in FY17 and converted the same into equity by October 26, 2017. Consequently, the overall gearing ratio has improved from 4.91x at the end of FY17 to 2.26x at the end October 2017 (i.e. after conversion of OFCDs).

Intensified competition in T&D industry, increase in raw material costs may pressurize margins

Though the T&D EPC companies have healthy order book, the competition in this segment remains at elevated levels. Hence, margin protection and appropriate bidding for orders remain critical aspects for the T&D EPC companies. As a result, timely execution of orders and appropriate hedging/procurement planning of key raw materials (such as Steel, aluminum and zinc) remain key monitorables for these companies to maintain operating margins and generate sustainable cash flows over the medium term.

Analytical approach: 'Standalone' as the company does not have any significant operational and financial linkages with the group companies.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company
Transrail Lighting Ltd. (TLL) was incorporated on February 18, 2008. The company provides solutions for Power Transmission and Distribution business as well as High Mast lighting solutions from design, testing, fabrication, supply of material, erection, stringing and commissioning on turnkey basis. The company has executed more than 22,700kms of transmission lines and has total experience of 33 years in T&D sector (including GIL experience). As on March 31, 2017, TLL has manufacturing capacity of 96,000 MT for Transmission Towers, 60,000 MT of Conductors and 24,000 MT of Poles.

As a part of Strategic Debt Restructuring (SDR) process of Gammon India Ltd (GIL, rated CARE D), the Transmission and Distribution (T&D) business is carved out and transferred to a separate company i.e. Transrail Lighting Limited (TLL). Consequently, the company entered into Business Transfer Agreement (BTA) and scheme of arrangement with GIL. All the assets and liabilities along with the long term borrowings of Rs.505 crore and Rs.212 crore and short term borrowings of Rs.29.99 crore were transferred to TLL.

Subsequently, in accordance with the BTA and scheme of arrangement, Ajanma Holding Pvt. Ltd. (AHPL) has agreed to put in Rs.47.70 crore as sub-debt (Optionally Fully Convertible Debentures, (OFCDs) to support operations and agreed to convert it into equity. Accordingly the same has been converted into equity in October, 2017.

Further, pursuant to order of National Company Law Tribunal (NCLT) dated March 30, 2017, the company has executed Novation Agreements with Consortium lenders retrospectively i.e. effective January 01, 2016, which is an appointment date in the Scheme of Arrangement. Out of 17 lenders, 14 have signed the Novation Agreements. After AHPL took over in February-March 2016, there were legacy dues of Rs.50-60 crore to lenders. There were instances of delays in interest servicing due to following issues:

1. Novation Agreement not signed

2. Carving out not happened inspite of Signing of Novation Agreement
3. Non-opening of Loan accounts/Cash Credit accounts to transfer funds

As on March 31, 2017, the interest accrued and due on borrowings but not paid aggregated to Rs.8.40 crore. The management has confirmed that 14/17 Consortium lenders have signed the Novation Agreement and have been paid regularly. Since, these 3 lenders (LIC, GIC and UIC) have not signed Novation Agreement their interest has been kept in Trust Retention Account of ICICI Bank/FD of ICICI bank (lead bank of Consortium). The aforesaid facilities of these three lenders are not being rated.

After improved operational performance under new management, the company has paid all its dues and has no delays from February 28, 2017 onwards.

Brief Financials-Standalone (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income (TOI)	311.13	1,283.10
PBILDT	43.76	139.14
PAT	8.87	51.66
Interest coverage (times)	1.33	1.45
Overall Gearing (times)	7.54	4.91

A: Audited;

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.*

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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	-	-	-	12.50	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	12.50	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	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.	Fund-based - LT-Term Loan	LT	12.50	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	12.50	CARE BBB; Stable	-	-	-	-

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