Texmaco Rail & Engineering Ltd.
Belgharia Works
CIN No.: L29261WB1998PLC087404
GSTIN No. 19AABCT2592E1ZA

TEXMACO

9th July, 2021

National Stock Exchange of India Ltd.,	*BSE Limited*
Exchange Plaza, C-1, Block G,	*P. J. Towers,*
Bandra - Kurla Complex	*Dalal Street,*
Bandra (E), Mumbai - 400051	*Mumbai - 400001*
Symbol - TEXRAIL	**Scrip Code - 533326**

Dear Sirs,

In continuation to our letter dated 8th July, 2021 informing the details of the credit ratings issued by CARE Ratings Limited to the Company's bank facilities, we are now enclosing herewith the Press Release published by CARE Ratings Limited in this regard.

This is for your information and record.

Thanking you,

Yours faithfully,
For **Texmaco Rail & Engineering Limited**

Ravi Varma
Company Secretary &
Compliance Officer

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Texmaco Rail & Engineering Limited

July 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	733.85 (Enhanced from 726.63)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	1,761.99 (Reduced from 1,906.99)	CARE A-; Negative / CARE A2 (Single A Minus ; Outlook: Negative/ A Two)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	5.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**2,500.84 (Rs. Two Thousand Five Hundred Crore and Eighty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to Texmaco Rail & Engineering Limited (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, Joint Venture (JV) with leading technology & engineering and leasing companies and rising demand for commodity specific wagons among private players as well as export destinations. The ratings also factor in the healthy order book position as on March 31, 2021, though the same has reduced as compared to June 30, 2020, on account of lower inflow of orders during FY21 (refers to the period April 1 to March 31).

The ratings take note of the moderation in financial performance of the company in FY21 on account of Covid-19 pandemic related impact on order execution and significant increase in raw material prices (mainly steel) during the year which could not be entirely passed on. The net profit has been impacted with lower operating margin and increase in capital charge and accordingly, the debt coverage indicators have witnessed deterioration. Though there has been reduction in inventory levels, the operating cycle witnessed further elongation in FY21 to 242 days (227 days in FY20) due to the increase in collection period. The company continues to have significant amount of unbilled debtors as on March 31, 2021.

However, the ratings draw comfort from the significant amount of funds infused by the promoters in the form of unsecured loans (Rs.195 crore outstanding as on March 31, 2021) to meet working capital requirement.

The company had planned preferential allotment of upto Rs.200 crore in FY21. Pursuant to the same, unsecured loans of Rs.79 crore infused earlier were converted into equity during the year. To raise further equity, the Board of the company has now approved Rights issue for an amount of upto Rs.175 crore. A part of the unsecured loans already outstanding from the promoters (about Rs.90-100 crore) would be converted into equity under the issue and a further infusion of about Rs.50 crore is expected. The plan of the company to raise long-term working capital debt of Rs.100 crore remains under process and is expected to create liquidity buffer for the company.

The ratings remain constrained by the high working capital intensity of operations, competition in the various business segments of the company and exposure to volatility in the raw material prices.

Ratings Sensitivities

Positive Factors:

- Successful execution of order book and ability to garner new orders leading to improvement in revenue and operating margin.
- Efficient management of working capital requirement and improvement in operating cycle to below 150 days on sustained basis.

Negative Factors:

- Decline in operating profitability (PBILDT margin < 7%) on sustained basis.
- Further elongation in operating cycle beyond 250 days.
- Increase in overall gearing to beyond unity on a sustained basis.
- Inability to raise resources as envisaged.

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' on the expectation of continued pressure on profitability and debt coverage indicators with elevated debt levels and high working capital intensity of operations, more so in the wake of uncertainties associated with the pandemic. The company is in the process of raising equity and long-term debt to fund its working capital requirement and create liquidity buffer. The outlook may be revised to stable if there is improvement in the operational performance and cash flow position with reduction in debtors and infusion of funds as envisaged which would lead to reduction in debt levels.

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, loco components & loco shells, HME & structural, bridges, steel foundry, order book of KRN (Rs.1,525 crore) and BPPPL (Rs.411 crore) has led to a satisfactory order book position of around Rs.3,189 crore as on March 31, 2021. Further, there were orders of Rs.217 crore in other subsidiaries/JVs (primarily Touax). The consolidated order book stood at Rs.3,406 crore as on March 31, 2021. However, it has moderated as compared to order book of Rs.4,200 crore as on June 30, 2020, on account of lower order flow during the year.

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

Touax Texmaco Railcar 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

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. This translates into stable demand outlook for the products and services offered by the company.

Key Rating Weaknesses

Financial performance in FY21 impacted due to Covid-19

The company's consolidated revenue from operations declined by about 7% in FY21 from FY20. The decline in revenue was mainly due to impact of Covid-19 pandemic and related lockdowns on execution. Sales were also impacted due to migration of labour. The PBILDT margin of the company reduced to 8.77% in FY21 vis-à-vis 9.51% in FY20 mainly due to losses incurred in Q1FY21 and substantial increase in steel prices which could not be passed on in the short-term contracts. With further increase in interest expense and depreciation, net profit remained subdued. However, the PAT margin improved in FY21 vis-à-vis FY20, as there was exceptional cost of Rs.149.92 crore in FY20 for provisions against trade receivables, unbilled revenue and contractual reimbursement expenses pertaining to completed legacy contracts of KRNL.

Moderate capital structure

The overall debt on a consolidated basis continued to remain high at about Rs.849 crore (excluding mobilisation advances) as on March 31, 2021, which primarily comprises working capital borrowings and Inter-corporate deposits (ICDs).

During FY21 the company converted Rs.79 crore of unsecured loans into equity. The consequent increase in networth along with accretion of profits to reserves resulted in overall gearing remaining stable at 0.89x as on March 31, 2021 vis-à-vis 0.90x as on March 31, 2020. However, PBILDT interest coverage deteriorated from 1.82x in FY20 to 1.46x in FY21 with the combined impact of lower PBILDT and increase in finance cost. Total debt to GCA increased substantially to 20.50x in FY21 as against 10.95x in FY20.

The Board of the company has approved a further equity raising by way of Rights issue of upto Rs.175 crore. A part of the ICDs is expected to be converted to equity pursuant to the issue and additional equity is expected to be raised from the other shareholders. The company is also proposing to raise long term debt of Rs.100 crore as a stable source of working capital funding.

Elongated operating cycle

The nature of business of TexRail entails considerable dependence on working capital requirements both in the form of fund-based and non-fund-based borrowings. The operating cycle of the company elongated to 242 days in FY21 vis-à-vis 227 days in FY20 due to increase receivable days mainly on account of significant amount of execution done towards the end of the year and high level of unbilled debtors. The average inventory period and average creditor period stood at 98 days and 113 days respectively for FY21 vis-à-vis 107 days and 119 days in FY20 respectively.

The debtors (including retention) decreased from Rs.644.50 crore as on March 31, 2020 to Rs.611.49 crore as on March 31, 2021. Whereas, the unbilled debtors increased from Rs.541.02 crore as on March 31, 2020 to Rs.600.99 crore as on March 31, 2021. The unbilled debtors are high for the company on account of non-achievement of billing milestones in some of the projects due to impact of Covid-19 and dependence upon other contractors for completion of composite parts of the project. The elongated operating cycle has resulted in high utilisation of working capital bank limits.

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 the company is exposed to raw material price volatility.

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 company is expected to generate sufficient cash accruals to meet term debt repayment obligations of Rs.30.92 crore in FY22 (including Covid loan repayments). The average fund-based working capital limit utilization was high at about 93% for last 12 months ended May 2021. The promoters have been supporting liquidity through infusion of funds in form of un-secured loans and ICDs as and when required. The board has approved infusion of funds as rights issue of upto Rs.175 crore (partly already received in the form ICDs to be converted into equity). This apart, the management proposes to take Rs.100 crore of corporate loan to create liquidity buffer for smooth operations. The company had liquidity of around Rs.58 crore as on March 31, 2021 in the form of cash & current account balances (Rs.22.06 crore) and remaining in mutual funds (Rs.35 crore).

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 (Belur)	100%
Texmaco Transtrak Pvt. Ltd. (Transtrak)	51%
Texmaco Engineering Udyog Private Limited	100%
Texmaco Rail Electrification Limited	100%
Texmaco Rail Systems Private Limited	67.11%
Texmaco SA (Pty) Limited	100%
JVs	
Touax Texmaco Railcar Leasing Private Limited (Touax)	50%
Wabtec Texmaco Rail Private Limited (Wabtec)	40%
Associate	
Texmaco Defence Systems Private Limited (Texmaco Defence)	*41%*

Applicable Criteria
Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Rating Methodology – Construction Sector
Rating Methodology-Manufacturing Companies

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 42,000 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, signalling & 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)	**FY20 (A)**	**FY21 (A)**
Total operating income	1852.81	1721.10
PBILDT	176.25	150.90
PAT	-64.90	12.02
Overall gearing (times)	0.90	0.89
Interest coverage (times)	1.82	1.47

A: Audited

Status of non-cooperation with other 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	-	-	-	581.50	CARE A-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	1761.99	CARE A-; Negative / CARE A2
Fund-based - LT-Term Loan	-	-	Dec'25	152.35	CARE A-; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2	-	1)CARE A2 (17-Sep-20) 2)CARE A2 (26-Jun-20)	1)CARE A1 (25-Mar-20) 2)CARE A1+ (04-Nov-19)	1)CARE A1+ (08-Jan-19)
2.	Fund-based - LT-Cash Credit	LT	581.50	CARE A-; Negative	-	1)CARE A-; Stable (17-Sep-20) 2)CARE A-; Stable (26-Jun-20)	1)CARE A+; Stable (25-Mar-20) 2)CARE A+; Stable (04-Nov-19)	1)CARE A+; Stable (08-Jan-19)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (04-Nov-19)	1)CARE A1+ (08-Jan-19)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1761.99	CARE A-; Negative / CARE A2	-	1)CARE A-; Stable / CARE A2 (17-Sep-20) 2)CARE A-; Stable / CARE A2 (26-Jun-20)	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)

5.	Fund-based - LT-Term Loan	LT	152.35	CARE A-; Negative	-	1)CARE A-; Stable (17-Sep-20) 2)CARE A-; Stable (26-Jun-20)	1)CARE A+; Stable (25-Mar-20) 2)CARE A+; Stable (04-Nov-19)	1)CARE A+; Stable (08-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4- Complexity of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple
4.	Non-fund-based - ST-Forward Contract	Simple

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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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