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India Ratings Places Titagarh Wagons on RWN

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India Ratings and Research (Ind-Ra) has placed Titagarh Wagon Limited's (TWL) Long-Term Issuer Rating of 'IND A-' on Rating Watch Negative (RWN).The instrument-wise rating actions are given below:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based facilities	-	-	-	INR1,400	IND A-/RWN/IND A2+/RWN	Placed on RWN
Non-fund-based facilities	-	-	-	INR6,008	IND A2+/RWN	Placed on RWN

Analytical Approach: Ind-Ra continues to take a consolidated view of TWL and its subsidiaries, as the debt of the subsidiaries is guaranteed by TWL.

The RWN reflects the likelihood of any impact on the cash outflows and the liquidity profile of TWL on account of the liquidation process of TWL's France-based subsidiary, Titagarh Wagons Arbel Fauvet Rail (TWAFR), to which TWL had extended a corporate guarantee.

KEY RATING DRIVERS

Liquidation of TWAFR: The commercial court of Paris approved a plan for transfer of business of TWAFR to another bidder and ordered for the liquidation of the company on 13 August 2019. As per the verdict, TWL would no longer have any control in TWAFR, and the impact of the corporate guarantee extended by TWL to TWAFR for INR329.1 million (outstanding amount at end-FY19: INR266.3 million) cannot be ascertained until the liquidation process is completed.

However, as per the company, other than the corporate guarantee, the liquidation would not have any material financial impact on TWL, as the company had already made the entire provision for its investments in TWAFR (INR488.3 million) as well as Titagarh Singapore Pte Ltd, a 100% subsidiary of TWL, which held around INR587.4 million along with INR193.7 million of other receivables from TWAFR in 4QFY19.

Ind-Ra believes that any cash outflows on account of the liquidation may impact the financial profile of TWL and has placed the rating under watch.

Group Consolidation in Process: In May 2019, the board of directors of TWL had given approval for the merger of Cimmco Limited (CL: 'IND A-'/ RWN), a 75% subsidiary of TWL and Titagarh Capital Pvt Ltd (100% subsidiary of TWL), with the parent to simplify the corporate structure. However, this merger would not have a material impact on the ratings as Ind-Ra uses the consolidated approach to evaluate the ratings of TWL and CL.

Strong Revenue Visibility: The consolidated order book (after excluding TWAFR's order book) of the company remained stable at INR49.85 billion at end-August 2019 (FY19: INR51.0 billion), majorly due to the inflow of new metro orders worth INR11.25 billion for the design, manufacture and supply of 102 metro coaches for Pune Metro Rail. As per the tender, three car prototype metro train sets are to be supplied within 78 weeks and the balance 33 train sets are to supplied within 160 weeks from the date of sanction. In addition to this, TWL had participated in the bid for 9,000 wagon orders raised by IR in July 2019.

Moderate Liquidity: With the group generating negative cash flow from operations since FY16, the cash balances declined to INR1.1 billion in 1QFY20 (FY19: INR1.8 billion); of this, INR0.6 billion of investments in tax-free bonds were pledged to manage the company's working capital requirement. In addition, TWL had to execute low-margin orders that were not backed by advances and the free supply items used in wagon manufacturing provided by Indian Railways (IR), leading to higher working capital utilisations. The average utilisation of fund-based working capital limits (around INR1.4 billion) was around 95% in FY19 (FY18: 46%).

However, TWL was able to refinance the short-term working capital debt with longer-term working capital term loan in its Italy-based subsidiary, TFA, providing liquidity cushion to the former. The term loan obligation expected to be serviced in the remaining 9 months of FY20 is around INR213.3 million (FY19: INR260.0 million). Moreover, Ind-Ra believes that the liquidity profile of the company would improve over FY20-21 owing to the receipt of high-margin metro that are backed by interest free mobilisation advances. Furthemore, the management is planning to sell off some of the non-productive assets to improve TWL's liquidity profile and deleverage its balance sheet debt over the medium term.

Out of the expected working capital enhancement of INR5.2 billion at end-FY19, the company has been able to tie up enhancements for around INR2.0 billion. Any further delay in tying up the balance amount would lead to partial usage of the free cash balances to manage the working capital cycle. This would result in a decline in the available free cash balances at end-1QFY20, causing a deterioration of the liquidity profile. This could have a negative impact on the ratings.

Modest Consolidated Credit Profile: TWL had restated its consolidated financials for FY19 in the quarterly declaration released in August 2019, wherein TWAFR's performance was not taken into consideration. As per the restated financials, despite the issues pertaining to foreign subsidiaries, the consolidated revenue grew by 22.8%, backed by the growth in the scale of operations of domestic entities. This enabled the company to report an EBIDTA margin of 5.3% in FY19 (FY18: EBITDA loss). However, the net leverage (net debt/ EBIDTA) and interest coverage (EBIDTA/ interest cost) remained subdued at 8.0x and 1.3x on account of an increase in the working capital requirements of domestic entities and the subdued profitability of foreign entities.

Improved Operational Performance of Domestic Entities: Revenue from domestic operations (TWL and Cimmco) increased to around INR11.0 billion in FY19 (FY18: INR4.4 billion) on account of an increase in TWL's standalone revenue to INR9.1 billion (FY18: INR3.0 billion) due to increased execution of the IR orders received by TWL in FY18. Moreover, revenue of around INR4.3 billion was recognised in 1QFY20 (1QFY19: INR1.6 billion), backed by the increased execution of the domestic orders released by IR in December 2018.

The growth in scale of operations led to better absorption of the fixed costs associated with the industry, enabling the domestic entities to report an EBITDA margin of 5.5% in FY19 as against a loss in FY18 (1QFY20: 7.2%; 1QFY19: 2.4%; TWL's standalone margin in FY19: 5.9%). The interest coverage (EBIDTA/interest cost) ratio improved to around 1.4x in FY19 (FY18: EBITDA loss; 1QFY20: 1.9x, 1QFY19: 0.5x), but remained moderate on account of higher working capital utilisation levels resulting from the stoppage of free supply items by IR.

RATING SENSITIVITIES

The RWN will be resolved once there is more clarity on the likely impact of the liquidation process of TWAFR on TWL's liquidity and credit profile.

COMPANY PROFILE

Incorporated in 1997, TWL manufactures various types of wagons, EMUs, bailey bridges, heavy earthmoving and mining equipment, and steel and spheroidal graphite iron castings. The company has three manufacturing facilities, two in Titagarh and one in Uttarpara, with a combined manufacturing capacity of 6,000 wagons and 36 EMU rakes.

CL, has a manufacturing facility in Bharatpur, Rajasthan, with an annual capacity of 2,400 wagons. Titagarh Agrico Private Limited (a wholly-owned subsidiary of TWL merged with CL in FY18), has set up a tractor manufacturing plant in Bharatpur with an annual capacity of 2,400 units. The capacity can be ramped up based on demand.

TFA, a step-down subsidiary of TWL, manufactures coaches.

FINANCIAL SUMMARY

Particulars	FY19*	FY18
Revenue (INR million)	15,592.9	12,681.9
EBITDA (INR million)	833.7	-897.1

EBITDA margin (%)	5.3	-7.1
Total debt (INR million)	8,433.4	6,239.8
Cash and cash equivalent (INR million)	1,778.0	1,319
Net debt (INR million)	6,655.4	5,307.4
Source: TWL (consolidated), Ind-Ra *Restated figures not considering TWAFR stated in 1QFY20		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	29 March 2019	20 April 2018	30 December 2016
Issuer rating	Long term	-	IND A-/RWN	IND A-/Negative	IND A+/Negative	IND AA-/Stable
Fund-based facilities	Long/ Short term	INR1,400	IND A-/RWN/IND A2+/RWN	IND A-/Negative/IND A2+	IND A+/Negative/IND A1	IND AA-/Stable/IND A1+
Non-fund-based facilities	Short term	INR6,008	IND A2+/RWN	IND A2+	IND A1	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

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