Rating Rationale

April 01, 2020 | Mumbai

Titagarh Wagons Limited

Rating outlook revised to 'Positive'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.740 Crore**
Long Term Rating	**CRISIL BBB/Positive (Outlook revised from 'Negative' and rating reaffirmed)**
Short Term Rating	**CRISIL A3+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised the outlook on the long term bank facilities of Titagarh Wagons Limited (TWL; a part of the Titagarh group) to **'Positive'** from 'Negative', while the ratings have been reaffirmed at 'CRISIL BBB/CRISIL A3+'

The revision in outlook reflects significant improvement in operating performance of the domestic entities, substantial decrease in overall debt and easing liquidity pressure. TWL's absolute operating profit before depreciation, interest and tax (OPBDIT) increased Rs 79 crore during the nine months through December 2020 from Rs 32 crore during the corresponding period of previous year supported by 80% growth in operating income and improvement in OPBDIT margin to 8.3% from 6.0%. The margins are expected to sustain going forward with TWL's healthy unexecuted order book of around Rs 2000 crore as on December 2019 providing revenue visibility for the medium term. Further, the company is well placed to bid for orders in the higher-value segment (such as metro coaches in India), given its access to requisite technology from foreign collaborations.

CRISIL has noted TWL's decision to temporary close the India as well as Italy operations amid measures taken by respective governments towards containment of Novel Coronavirus (COVID-19) which includes temporary closure of non-critical establishments, inter-state transportation etc. along-with severe restrictions on movement of people and non-essential goods. These measures are likely to impact the business profile of the company in terms of execution of orders in hand, at least on a short term basis. That said, the ability of the business to revert back to operational stability upon resumption of normalcy will be a key monitorable.

CIMMCO Limited (CIMMCO; subsidiary of TWL, in process of being merged) OPBDIT margin has improved to 5.6% during nine months through December 2020 from 1.7% during the corresponding period of previous year. CIMMCO's unexecuted order book as of December 2019 stood at around Rs 300 crore.

Total debt for domestic entities (TWL and CIMMCO together) has reduced to Rs 203 crore as on February 15, 2020 from Rs 300 crore as on March 31, 2019 even after TWL raised incremental debt of around Rs 160 crore to acquire Titagarh Firema S.p.A, Italy's (TFA's) shares from Titagarh Singapore Pte Limited (TSPL) during the current fiscal. TSPL in turn retired the entire debt on its own book from the proceeds of share sales to TWL. The management expect domestic entities to be long term debt free by December 2020.

Liquidity pressure has eased with TWL securing additional working capital lines leading to total limits of Rs 893 crore from Rs 668 crore along with cash and cash equivalent of Rs 75 crore as on February 15, 2020. Further, average fund based working capital utilisation reduced to 65% for past 12 month ended January 2020 compared to above 90% earlier, aided by mobilisation advance received from Pune Metro project and release of blocked Goods and Service Tax (GST). In addition to this, the management plans to sell 887 wagons that are expected to be received from Indian Railway (IR) after winning arbitration award. These wagons were earlier subleased to IR. This will further improve liquidity. More importantly, incremental cash outflow towards overseas subsidiaries, which drained the liquidity of the group earlier, is expected to be NIL and will remain a key monitorable.

Titagarh group is also in process to simplify the group structure by merging CIMMCO and Titagarh Capital Private

Limited (TCPL) with TWL.

The ratings continue to factor in the group's established market position in the wagon manufacturing industry, and benefits derived from diversification into shipbuilding, bridge building, and defence segments. The strengths are partially offset by average debt protection metrics, and large working capital requirement.

Update on overseas subsidiary:

Titagarh Wagons AFR (TWA, France): Currently under liquidation and as per the management maximum potential liability of group is restricted to the guaranteed working capital outstanding of Euro 3 million (around Rs 25 crore). The amount has been already deposited by the group in an escrow account. TWL has already written off all investments, advances in TWA, France. Any additional liability towards the settlement will impact liquidity of the group and remain key monitorable.

Titagarh Firema Spa (TFA, Italy): Corporate guarantee by TWL toward debt of TFA, Italy has fallen off and TFA, Italy operation have improved with OPBDIT turning positive for the nine month through December 2019. The Italy operations are expected to be self-sustaining going forward with current order book of Euro 330 million (Rs 2,650 crore). Further the repayment of Euro 50 million term debt will commence in fiscal 2022 thus cushioning cash flow in the near term.

Titagarh Singapore Pte Limited (TSPL): During the current fiscal all the debt has been repaid by TSPL from proceeds of TFA shares sales to TWL. Since TSPL is not engaged in operations, no incremental financial support is expected from TWL.

Analytical Approach

CRISIL has changed its analytical approach from combining business and financial risk profile of all subsidiaries to combining only the business and financial risk profiles of TWL, Cimmco and Titagarh Capital Pvt Ltd (TCPL) collectively referred as domestic operations. These domestic entities have strong operational and financials linkages and are in process of being merged with TWL We have not consolidated TWA France (which is currently under liquidation), Titagarh Firema Spa (TFA) Italy (TWL's entire corporate guarantee towards TFA, Italy has fallen off; management articulation of no further financial support to TFA in the near term; and TWL lenders' sanction conditions restricting incremental support to group entities), and Titagarh Singapore Pte Ltd (NIL debt as on date and lenders restriction on incremental support to group entities) due to reason stated above. Any change in the management's policy regarding support to the group companies will be a key rating sensitivity factor. Unearned revenue has been adjusted as a part of inventories from other current assets.

Key Rating Drivers & Detailed Description

Strengths:

*** Established market position**

TWL (including CIMMCO) is one of India's largest wagon manufacturers, with a capacity of 8,400 wagons per annum. It accounted for around 24% of the orders released by the Indian Railways in fiscal 2018 and continued to maintain its leadership position, with an order of 5,058 wagons (out of 14,911) from the Indian Railways in fiscal 2019. Access to high technical abilities through foreign collaborations further supports the business risk profile. However, exposure to intense competitive pressure persists.

*** Diversified revenue profile of domestic operations**

The company has received its first metro project from Maharashtra Metro Rail Corporation Limited for Pune Metro project in consortium with TFA, Italy. Further with access to the latest technology from TFA Italy, TWL is well positioned to bid for large orders for other metro projects in future. TWL also have presence in the shipbuilding and defence segments. The company has successfully launched four ships for the Indian Navy and National Institute of Ocean Technology. During fiscal 2019 TWL sales from other segments, except wagons and coaches, contributed around 23% to overall sales. Further as on December 2019 around 57% of the total order book was from other segments, except wagons.

Weaknesses:

*** Average debt protection metrics**

The group's domestic entities' total outside liabilities to networth ratio was at 0.83 times as on March 31, 2019 and expected to remain below 1 times going forward. Debt protection metrics continue to be average, with interest coverage ratio at 1.95 times in fiscal 2019; the ratio is expected to remain below 3 times over the medium term.

*** Working capital intensive operations**

Domestic entities operations are working capital intensive and should remain so going forward as well, with execution of the large metro order. Gross current assets were 284 days as on March 31, 2019, due to inventory of 139 days. Although inventory has improved compared with the previous year, it remains sizeable. Advances from customers and incremental working capital limits will fund the working capital requirement.

Liquidity Adequate

Liquidity is adequate with cash and cash equivalents of Rs 75 crore as on February 15, 2020. Further scheduled debt repayment in domestic entities during fiscal 2021 is nil due to prepayment of term debt in fiscal 2020. Working capital requirement are expected to be met through internal accruals and tied up working capital limits. Average fund based bank utilisation was moderate at 65% for the 12 months ended through January 2020.

Outlook: Positive

CRISIL believes the TWL operating performance will benefit over the medium term from existing healthy order book and favourably placed position with respect to upcoming metro projects and an expected improvement in financial risk profile.

Rating Sensitivity factors

Upward factors

* Timely execution of orders in hand along with healthy operating margins leading to interest coverage ratio sustaining above 3 times.
* Liquidity strengthens on account of improvement in working capital cycle

Downward factors

* Delay in order execution, deteriorating the operating performance and thus leading to sustained reduction in interest coverage ratio below 2 times.
* Liquidity deteriorates on account of stretch in working capital cycle or incremental cash outflow towards group companies

About the Group

TWL was set up in July 1997 by Mr Jagdish Prasad Chowdhary. It manufactures freight wagons, bailey bridges, heavy earth-moving and mining equipment, steel and spheroidal graphite iron castings, and other products. Operations are managed by Mr Umesh Chowdhary. The company has three manufacturing facilities: two in Titagarh and one in Uttarpara (both in West Bengal). TWL has capacity to manufacture 6,000 wagons and 36 electric multiple unit coaches, and process around 30,000 tonne of casting steel per annum. The group also has capacity to manufacture bridges, shelters, heavy earth-moving machinery, and spares. Furthermore, it has a shipbuilding division, which delivered its first ship, a 1,000-tonne fuel tanker, to the Indian Navy in May 2018.

The group has made three acquisitions since 2010, namely Cimmco, with installed capacity of 2,400 wagons per annum; Titagarh Wagons-AFR (currently under liquidation), a France-based freight wagon company with capacity to manufacture 2,000 wagons per annum; and Firema, Italy, which aided the entry into global metro coaches and high-speed passenger train sets segments.

In July 2016, TWL amalgamated its subsidiary, Cimco Equity Holdings Pvt Ltd (a holding company for Cimmco), and its shipbuilding vertical housed under Times Marine Enterprises Pvt Ltd, Corporated Shipyard Pvt Ltd, and Titagarh Marine Ltd, with itself.

TWL has announced and approved a draft scheme of merger of Cimmco and TCPL with itself, subject to approvals from Securities and Exchange Board of India/stock exchanges and sanctioned by the National Company Law Tribunal.

For the nine months through December 2019 TWL on standalone basis reported profit after tax (PAT) of Rs 39 crore over total income of Rs 955 crore compared to Rs 13 crore and Rs 532 crore, respectively, during the corresponding period in the previous year.

Key Financial Indicators - (CRISIL adjusted numbers)

As on/for the period ended Mar 31		2019	2018*
Operating Income	Rs crore	1052	424
Profit after tax (PAT)	Rs crore	-55	-20
PAT margin	%	-5.2	-4.8
Adjusted debt/adjusted networth	Times	0.33	0.21
Interest Coverage	Times	1.95	0.46

**TCPL financials not combined*

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	140	CRISIL BBB/Positive
NA	Letter of credit & Bank Guarantee	NA	NA	NA	600	CRISIL A3+

Annexure - List of entities consolidated

Entity Consolidated	Extent of Consolidation	Rationale for consolidation
Cimmco Limited	Full consolidation	Common management and significant operational and financial linkages
Titagarh Capital Private Limited	Full consolidation	

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	140.00	CRISIL BBB/Positive			14-06-19	CRISIL BBB/Negative	27-11-18	CRISIL BBB+/Negative	27-10-17	CRISIL A+/Stable	CRISIL A+/Stable
								08-06-18	CRISIL A-/Negative			
								26-02-18	CRISIL A/Stable			
Non Fund-based Bank Facilities	LT/ST	600.00	CRISIL A3+			14-06-19	CRISIL A3+	27-11-18	CRISIL A2	27-10-17	CRISIL A1	CRISIL A1
								08-06-18	CRISIL A2+			
								26-02-18	CRISIL A1			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	140	CRISIL BBB/Positive	Cash Credit	140	CRISIL BBB/Negative
Letter of credit & Bank Guarantee	600	CRISIL A3+	Letter of credit & Bank Guarantee	600	CRISIL A3+
Total	740	--	Total	740	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Engineering Sector
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