Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

July 20, 2021 | Mumbai

Titagarh Wagons Limited

Ratings upgraded to 'CRISIL A- / CRISIL A2+ '; outlook revised to 'Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.740 Crore**
Long Term Rating	**CRISIL A-/Stable (Upgraded from 'CRISIL BBB/Positive')**
Short Term Rating	**CRISIL A2+ (Upgraded from 'CRISIL A3+ ')**

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

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Titagarh Wagons Ltd (TWL) to '**CRISIL A-/Stable/CRISIL A2+'** from 'CRISIL BBB/Positive/CRISIL A3+'

The upgrade factors in substantial deleveraging of the balance sheet and improvement in liquidity as reflected in low fund-based bank limit utilisation and a healthy cash/bank balance of Rs 134 crore as on March 31, 2021. Due to accelerated prepayments, there is no scheduled debt obligation in fiscal 2022. The upgrade also reflects an expectation of further improvement in the financial risk profile over the medium term on account of healthy cash accrual from domestic business and no cash outflow expected towards overseas subsidiaries, which had drained liquidity in the past.

During fiscal 2021, the operating profit before depreciation, interest and tax (OPBDIT) margin improved to 11.6% from 8.7% in the previous fiscal despite the lower scale of operations amid the Covid-19 pandemic. The improvement was driven by execution of high-margin orders along with synergy benefits from simplifying the group structure. The operating performance is expected to remain strong, supported by unexecuted orders of around Rs 2,650 crore as on March 31, 2021, thus providing revenue visibility over the medium term. Further, the company is expected to retain its high market share in wagon orders released by the Indian Railways (IR) as seen in the past. Additionally, it is well placed to bid for metro orders, given its access to the requisite technology from foreign collaborations.

The interest coverage ratio has remained consistently above 3 times in the third and fourth quarters of fiscal 2021. Debt protection metrics should improve further on account of significant deleveraging and sustenance of the operating performance.

For the Pune metro project (won in August 2019), the company had earlier received extension to deliver the first trainset (out of overall 34 trainsets) by June 2021 and the balance in a phased manner by September 2022. However, this has been further delayed due to the second wave of the pandemic. As per existing progress, the first trainset is expected to be delivered after a delay of 2-3 months, while the company expects to cover up and deliver the entire order within the revised timeline. Timely delivery of this order is critical given that this is the first order in the transit segment and would have consequence on future bids planned for metro projects.

The management continues to maintain its stance of not providing any financial support to international subsidiaries directly or indirectly from TWL's standalone balance sheet. Any deviation from the stated philosophy of 'no financial support' towards overseas subsidiaries from TWL would be a key rating sensitivity factor.

The ratings continue to factor in the TWL's established market position in the wagon manufacturing industry, and benefits derived from diversification into metro, shipbuilding, bridge building and defence segments, along with an improved financial risk profile. These strengths are partially offset by working capital-intensive operations, significant dependence on IR for orders and exposure to volatility in raw material prices.

Analytical Approach

CRISIL Ratings continues to take a standalone view on the business and financial risk profiles of TWL and does not consolidate international subsidiaries, namely Titagarh Firema S.p.A. (TFA), Italy, and Titagarh Singapore Pvt Ltd (TSPL). That's because the earlier corporate guarantee towards TFA, Italy has ceased to exist and management has articulated to not provide further financial support to international subsidiaries directly or indirectly would be provided. Also, there are lenders' restrictive covenants on incremental financial support to group entities. CRISIL Ratings has moderately consolidated the newly formed subsidiary, Titagarh Bridges & International Pvt Ltd as some fund infusion may be required to support its working capital requirement over the medium term. Unearned revenue has been adjusted as a part of inventory from other current assets.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position**
  TWL is one of India's largest wagon manufacturers, with a capacity of 8,400 wagons per annum. It accounted for around 34% of the orders released by the Indian Railways in fiscal 2019 and continued to maintain its leadership position, with an order of 1,787 wagons (out of 3,799) from the Indian Railways in September 2020. Access to high technical ability through foreign collaborations further supports the business risk profile. However, exposure to intense competitive pressure persists.

- **Diversified revenue profile of domestic operations**
  The company had received its first metro project order from Maharashtra Metro Rail Corporation Ltd for the 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. The company also has a presence in the shipbuilding and defence segments. It has successfully launched four ships for the Indian Navy and National Institute of Ocean Technology. During fiscal 2021 sales from segments other than wagons and coaches contributed around 6% to overall sales.

- **Healthy financial risk profile and liquidity**
  Liquidity has improved significantly driven by interest-free mobilisation advance received from the Pune Metro project and gradual release of working capital blocked in excess goods and services tax (GST) receivable. Also, proceeds from partial sale of 887 wagons received from IR after winning an arbitration award have supported liquidity. Due to prepayments, leverage has improved significantly as visible in the debt/OPBDIT ratio of below 1 time. Debt protection metrics are expected to improve further on account of significant deleveraging and sustenance of operating performance.

Weakness:

- **Working capital-intensive operations**
  The nature of operations has large working capital requirement, as reflected in high gross current assets (GCAs). This is due to high inventory requirement (84 days as on March 31, 2021). Working capital requirement is likely to remain high, driven by change in IR's raw material policy a few years ago coupled with current execution of the large metro order. Significant undrawn working capital limit along with advances from customers is likely to fund working capital requirement.

- **Dependence on IR for wagon orders: A large** portion of revenue is currently derived from wagon orders received from IR. Lack of steady orders has constrained the topline and operating performance of wagon manufacturers historically. Though TWL has fairly diversified its order book post the Pune Metro order, dependence on IR orders would continue given its sizeable contribution in the overall business.

- **Exposure to risks relating to fluctuation in raw material prices, and low pricing power in soft industry conditions:** The key inputs include steel and related products. The projects have a long execution period, extending to over a year, and not all orders are covered by a price-variation clause. Hence, to an extent, the company is exposed to fluctuations in steel prices during the project execution period. On the other hand, pricing power is restricted because of bid-based orders by IR (main customer). IR's orders are spread across suppliers and are decided based on the bids submitted by wagon manufacturers. Although the quantity is allocated as per the supplier's past performance, the company has to match the prices of the lowest bidder to receive the final order.

Liquidity: Strong

The company has nil scheduled debt obligation in fiscal 2022 due to accelerated prepayments. Fund-based working capital utilisation was low at below 5% in the six months through April 2021. Cash and equivalents stood at Rs 134 crore as on March 31, 2021. Cash accrual, working capital limit and the cash balance are adequate for meeting capital expenditure and working capital requirement.

Outlook: Stable

CRISIL Ratings believes TWL operating performance will benefit over the medium term from the healthy unexecuted order book and improved financial risk profile.

Rating Sensitivity factors

Upward factors

- Timely execution of orders in hand especially the Pune Metro, while maintaining a healthy operating margin, leading to a sustained interest coverage ratio of above 4.5 times.
- Further strengthening of liquidity on account of improvement in the working capital cycle

Downward factors

- Weakening of the operating performance due to delay in execution of orders in hand, leading to sustained reduction in the interest coverage ratio to below 3 times
- Weakening of liquidity on account of a stretch in the working capital cycle or incremental cash outflow towards group companies

About the Company

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 four manufacturing facilities: two in Titagarh and one in Uttarpara, both in West Bengal, and one in Bharatpur, Rajasthan. It has capacity to manufacture 8,400 wagons, 200 Metro coaches and 36 electric multiple unit coaches, and process around 30,000 tonne of casting steel, per annum. It also has capacity to manufacture bridges, shelters, propulsion equipments. Furthermore, it has a shipbuilding division, which delivered its first ship, a 1,000-tonne fuel tanker, to the Indian Navy in May 2018.

Key Financial Indicators - Standalone (CRISIL adjusted numbers)

As on/for the period ended Mar 31		2021	2020
Operating Income	Rs crore	1,026	1,485
Profit after tax (PAT)	Rs crore	50	(80)
PAT margin	%	4.9	-5.4
Adjusted debt/adjusted networth	Times	0.12	0.26
Interest Coverage	Times	2.28	2.20

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)	Complexity levels	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	195	NA	CRISIL A-/Stable
NA	Letter of credit and bank guarantee	NA	NA	NA	545	NA	CRISIL A2+

1 crore = 10 million

Annexure – List of entities consolidated

Name of the entity	Extent of consolidation	Rationale
Titagarh Bridges & International Pvt Ltd	Moderate	Factors only additional support

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	195.0	CRISIL A-/Stable		--	01-04-20	CRISIL BBB/Positive	14-06-19	CRISIL BBB/Negative	27-11-18	CRISIL BBB+/Negative	CRISIL A+/Stable
			--		--		--		--	08-06-18	CRISIL A-/Negative	--
			--		--		--		--	26-02-18	CRISIL A/Stable	--
Non-Fund Based Facilities	ST	545.0	CRISIL A2+		--	01-04-20	CRISIL A3+	14-06-19	CRISIL A3+	27-11-18	CRISIL A2	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	195	CRISIL A-/Stable	Cash Credit	140	CRISIL BBB/Positive
Letter of credit & Bank Guarantee	545	CRISIL A2+	Letter of credit & Bank Guarantee	600	CRISIL A3+
Total	740	-	Total	740	-

Criteria Details

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
CRISILs Criteria for Consolidation

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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