

Press Release

Railfab (RF)

July 31, 2019



Rating Reaffirmed

| | |
|-------------------------------------|------------------------------------|
| Total Bank Facilities Rated* | Rs. 17.56 Cr. |
| Long Term Rating | ACUITE BB+/ Stable (Reaffirmed) |
| Short Term Rating | ACUITE A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has Reaffirmed the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) of Rs.17.56 crore bank facilities of RAILFAB. The outlook is 'Stable'.

Kapurthala based Railfab, established in 1994 by Mrs. Aruna Jain, Mrs. Meenu Jain, Mrs. Nalini Jain and Mr. Sahil Jain. The firm is engaged in the manufacture of bio-toilets, under-carriage components, body shell components among others mainly for the Indian Railways at the Rail Coach Factory based at Kapurthala (Punjab), Raebareli (Uttar Pradesh) and Chennai (Tamil Nadu).

About the group:

The Jain Group promoted by the Punjab-based family was established in 1990. The group manufactures bio-toilets, under carriage components, body shell components among others for Indian Railways Rail Coach Factories based at Kapurthala (Punjab), Rae Bareli (Uttar Pradesh) and Chennai (Tamil Nadu). These products are sold through the four major individual entities of the Jain Group i.e. 'Railtech', 'Railfab', 'Techfab' and 'Inovtech'.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Railtech, Railfab and Techfab together referred to as 'Railtech Group'. The consolidation is in view of similar line of business, significant financial linkages and common management.

Key Rating Drivers

Strengths

• Experienced partners and established Track record of operations:

The Jain Group was established in 1990. The Partners, Mr. Sardeep Jain, Mr. Sunil Jain, Mr. Suresh Jain, Mrs. Nalina Jain, Mrs. Aruna Jain and Mrs. Meenu Jain have around 25 years of consolidated experience in the same line of business

• Moderate Financial Risk Profile:

The group has moderate financial risk profile marked by Net worth of Rs.40.55 crore in FY 2018 as against Rs.35.11 crore in FY2017. Net worth consists of unsecured loans of Rs. 9.61 crore which is to be considered as Quasi Equity. The gearing level (debt to equity) stands at 1.40 times as on March 31, 2018 as against 1.47 times in FY2017. The Interest coverage ratio stands at 3.17 times for FY2018 as against 3.41 times for FY2017. The debt service coverage ratio stands at 2.85 times for FY2018 as against 2.76 times for FY2017.

Weaknesses

- **Working capital intensive operations**

The group have intensive working capital operations marked by gross current assets (GCA) of 274 days for FY2018 as against 234 days in the previous year. Further the GCA days are mainly dominated by debtors which stood high at 104 days for FY2018 as against 103 days for FY2017. Inventory level stood at 87 days for FY2018 as against 70 days for FY2017. As a result, the bank limits are fully utilized for the last six months ending March, 2019.

- **Tender Based Business:**

The group deals with clients which provide orders on tender basis. The group has to bid for tenders. Going forward the group's ability to bid for large orders and qualifying for the same remains to be seen. However, the partners' experience and relationship partially mitigates this risk.

- **Customer Concentration Risk:**

The group manufactures and supplies the components only to Railways leading to limited bargaining power in terms of pricing.

Liquidity position

The group has moderate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.10.75 crore during FY2018, while there are no significant debt maturity obligation for the same period. The cash accruals of the group are estimated to increase from Rs. 14.70 crore in FY2019 to Rs.18.95 crore in FY2021 while the debt maturity obligation for the period (FY 2020-2022) will be estimated to be Rs.3.25 crore each year. The group maintains cash and bank balances of Rs.0.65 crore as on March 31, 2018. The current ratio of the group stands healthy at 1.50 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain moderate over the medium term on account of comfortable cash accrual to its maturing debt obligation.

Outlook: Stable

Acuité believes that group will maintain a Stable outlook owing to the extensive experience of its promoters in the industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially while improving profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or deterioration in the financial risk profile owing to higher-than-expected debt-funded capex or working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 144.09 | 147.18 | 131.48 |
| EBITDA | Rs. Cr. | 18.19 | 18.76 | 11.12 |
| PAT | Rs. Cr. | 7.10 | 6.17 | 4.09 |
| EBITDA Margin | (%) | 12.62 | 12.74 | 8.46 |
| PAT Margin | (%) | 4.93 | 4.19 | 3.11 |
| ROCE | (%) | 16.00 | 21.01 | 19.85 |
| Total Debt/Tangible Net Worth | Times | 1.40 | 1.47 | 1.36 |
| PBDIT/Interest | Times | 3.17 | 3.41 | 3.11 |
| Total Debt/PBDIT | Times | 3.09 | 2.70 | 3.05 |
| Gross Current Assets (Days) | Days | 274 | 234 | 216 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|---------------|--|------------|-----------------|---|
| 07-May-2018 | Cash credit | Long term | 9.00 | ACUITE BB+/Stable (Reaffirmed and assigned) |
| | Term loan | Long term | 3.56 | ACUITE BB+/Stable (Reaffirmed and assigned) |
| | Letter of Credit/ Bank Guarantee/ Buyer's Credit | Long term | 5.00 | ACUITE A4+ (Reaffirmed and assigned) |
| 24-April-2017 | Cash credit | Long term | 4.00 | ACUITE BB+/Stable (Upgraded) |
| | Proposed term loan | Long term | 1.53 | ACUITE BB+/Stable (Upgraded) |
| | Letter of credit | Short term | 1.50 | ACUITE A4+ (Reaffirmed) |
| | Bank guarantee | Short term | 2.00 | ACUITE A4+ (Reaffirmed) |
| 07-Oct-2015 | Cash credit | Long term | 4.00 | ACUITE BB/Stable (Upgraded) |
| | Term loan | Long term | 1.53 | ACUITE BB/Stable (Upgraded) |
| | Bank guarantee | Short term | 2.00 | ACUITE A4+ (Upgraded) |
| | Letter of credit | Short term | 1.50 | ACUITE A4+ (Upgraded) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|--|------------------|----------------|----------------|-------------------------------|--------------------------------|
| Cash credit | Not Applicable | Not Applicable | Not Applicable | 9.00 | ACUITE BB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 1.22 | ACUITE BB+/Stable (Reaffirmed) |
| Proposed term loan | Not Applicable | Not Applicable | Not Applicable | 2.34 | ACUITE BB+/Stable (Reaffirmed) |
| Letter of Credit/ Bank Guarantee/ Buyer's Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A4+ (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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