Press Release

Railtech

September 18, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs.16.26 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** and the short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.16.26 crore bank facilities of Railtech. The outlook is **'Stable'**.

Kapurthala-based, Railtech was established in 1990 by Mr. Sardeep Jain, Mr. Sunil Jain and Mr. Suresh Jain. The firm is engaged in the manufacturing of bio-toilets, under-carriage components, body shell components, among others, mainly for Indian Railways at the Rail Coach Factory based at Kapurthala (Punjab), Rae Bareli (Uttar Pradesh) and Chennai (Tamil Nadu).

The upgrade is on account of improvement in business risk profile marked by improvement in the revenues and the profitability and strong financial risk profile. The revenues have improved to Rs.167.64 crore in FY2019 (Provisional) as against Rs.144.08 crore in FY2018. This is mainly due to new orders received in last year. The gearing level (debt-to-equity ratio) reduced to at a comfortable level of 0.80 times as on March 31, 2019 (Provisional) as compared to 1.40 times as on March 31, 2018. This is mainly due to high net cash accruals in FY2019 (Provisional). The operating margins increased to 17.97 per cent in FY2019 (Provisional) as compared to 11.79 per cent in FY2018. The PAT margin increased to 9.64 per cent in FY2019 (Provisional) as compared to 3.47 per cent in FY2018. This is mainly due to higher margins earned in some of the projects such as bio-toilets installation.

About the group:
The Railtech Group, promoted by a Punjab-based family, was established in 1990. The group manufactures bio-toilets, under carriage components, body shell components, among others for Indian Railways at the 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. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced partners and established Track record of operations**

The Railtech 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 experience in the same line of business. All the partners are associated with the group from the beginning of the business. The extensive experience of the partners has enabled the group to forge healthy relationships with the Indian railways.

Acuité believes that Railtech Group will continue to benefit from its experienced management and established relationships with Indian railways.

• **Moderate Financial Risk Profile**
The group has moderate financial risk profile marked by Net worth of Rs.62.49 crore in FY2019 (Provisional) as against Rs.40.55 crore in FY2018. The net worth includes unsecured loans of Rs. 9.61 crore as on 31 March, 2019 (Provisional) from promoters, which are subordinated to bank debt. The gearing level (debt to equity) improved to 0.80 times as on 31 March, 2019 (Provisional) as against 1.40 times in FY2018. This is mainly due to high net cash accruals in FY2019 (Provisional). The Interest coverage ratio stood at 5.65 times for FY2019 (Provisional) as against 2.96 times for FY2018. The debt service coverage ratio stood at 4.84 times for FY2019 (Provisional) as against 2.49 times for FY2018.

Going forward, Acuité expects the group to maintain its financial risk profile in the absence of major debt funded capex plan.

• **Improvement in the business risk profile**
The revenues of the group have grown with (CAGR) of 24.50 per cent from 2015 to 2019 (provisional). The group has booked revenue of Rs.167.64 crore in FY2019 (Provisional) as against Rs.144.09 crore in FY2018 and Rs.147.18 crore in FY2017. This is mainly due to new orders received in last year. The group have recorded a revenue of ~Rs.52.00 crore for the first quarter of FY2020. The operating margins increased to 17.97 per cent in FY2019 (Provisional) as compared to 11.79 per cent in FY2018. The PAT margin increased to 9.64 per cent in FY2019 (Provisional) as compared to 3.47 per cent in FY2018. This is mainly due to higher margins earned in some of the projects such as bio-toilets installation.

Weaknesses

• **Working capital intensive operations**
The group has intensive working capital operations marked by gross current assets (GCA) of 276 days for FY2019 (Provisional) as against 274 days in the previous year. Further, the GCA days are mainly dominated by debtors that stood high at 112 days for FY2019 (Provisional) as against 104 days for FY2018. Inventory level stood at 74 days for FY2019 (Provisional) as against 86 days for FY2018. This is mainly due high collection period from India railways. As a result, the bank limits are fully utilized for the last six months ending 31 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 adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.20.59 crore during FY2019 (Provisional), while there is no significant debt maturity obligation for the same period. The cash accruals of the group are estimated to be in the range of Rs.14.16 crore to Rs.18.50 crore for FY2020-FY2022, 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.0.57 crore as on March 31, 2019 (Provisional). The group have the GCA days of 276 days for FY2019 (Provisional) as against 274 days in the previous year. The bank limits are fully utilized for the last six months ending 31 March, 2019. The current ratio of the group stood healthy at 1.55 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accrual to its maturing debt obligation.

Outlook: Stable
Acuité believes that the 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	167.64	144.09	147.18
EBITDA	Rs. Cr.	30.12	16.99	18.76
PAT	Rs. Cr.	16.16	4.99	6.17
EBITDA Margin	(%)	17.97	11.79	12.74
PAT Margin	(%)	9.64	3.47	4.19
ROCE	(%)	24.66	14.70	21.01
Total Debt/Tangible Net Worth	Times	0.80	1.40	1.47
PBDIT/Interest	Times	5.65	2.96	3.41
Total Debt/PBDIT	Times	1.64	3.31	2.70
Gross Current Assets (Days)	Days	276	274	234

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
- Consolidation of companies- https://acuite.in/view-rating-criteria-22.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
31-July-2019	Cash credit	Long term	10.00	ACUITE BB+/Stable (Reaffirmed)
	Term loan	Long term	0.26	ACUITE BB+/Stable (Reaffirmed)
	Letter of Credit/ Bank Guarantee	Short term	6.00	ACUITE A4+ (Reaffirmed)
07-May-2018	Cash credit	Long term	10.00	ACUITE BB+/Stable (Reaffirmed and assigned)
	Term loan	Long term	0.26	ACUITE BB+/Stable (Reaffirmed and assigned)
	Letter of Credit/ Bank Guarantee	Short term	6.00	ACUITE A4+ (Reaffirmed and assigned)
24-April-2017	Cash credit	Long term	7.00	ACUITE BB+/Stable (Upgraded)
	Proposed term loan	Long term	0.99	ACUITE BB+/Stable (Upgraded)
	Letter of credit	Short term	3.00	ACUITE A4+ (Reaffirmed)
	Bank guarantee	Short term	2.00	ACUITE A4+ (Reaffirmed)

***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	10.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	0.26	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Letter of Credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Upgraded from ACUITE A4+)

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About Acuité Ratings & Research:

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