

Press Release

Techfab

September 20 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.25 Cr.
Long Term Rating	ACUITE BBB-/ Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as ACUITE triple B minus) on the Rs. 6.25 crore bank facilities of TECHFAB. The outlook is 'Stable'.

Terrace, Himachal-Pradesh based Techfab was established in 2009 by Mr. Nikhil Jain and Mr. Mayank Jain. The firm is engaged in the manufacturing 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), Rae Bareli (Uttar Pradesh) and Chennai (Tamil Nadu).

About the group:

The Railtech 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 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 visible. 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 in 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 March 31, 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 (Up to last three years)

Not Applicable

*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	6.25	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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