

Press Release

Railfab Technologies Private Limited

October 07, 2020

Rating Upgraded & Assigned



Total Bank Facilities Rated*	Rs.24.93 Cr. (Enhanced from Rs.17.56)
Long Term Rating	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 22.80 Crore bank facilities of Railfab Technologies Private Limited. The outlook is '**Stable**'.

Acuite has also assigned the Long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.2.13 Crore bank facilities of Railfab Technologies Private Limited. The outlook is '**Stable**'.

Reason for Upgrade:

The upgrade in the rating is on account of significant improvement in revenue and profitability, healthy financial risk profile and strong order book position. The operating income of the group has grown by 13.42 percent in the FY2020 (Provisional) over FY2019. Operating Income for FY2020 (Provisional) stood at Rs.209.58 Crore as against Rs.184.78 Crore for the FY2019. The performance of the group has improved even during the current COVID-19 period as the group have achieved a revenue of Rs.78.50 Crore as on 31st August, 2020. This is mainly due to the timely completion of orders. The EBITDA Margins have significantly improved to 19.88 percent for FY2020 (Provisional) as against 15.23 percent in FY2019. This is mainly due to the completion of a large number of orders with higher profitability margins such as bio toilets. The net worth of the company stood at Rs.74.27 Crore as on 31 March 2020 (Provisional) as against Rs.53.73 Crore as on 31 March 2019. The interest coverage ratio (ICR) stood strong at 4.93 times in FY2020 (Provisional) as against 5.38 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio improved to 0.38 times in FY2020 (Provisional) as against 0.34 times in FY2019. The group have an adequate amount of order in hand, i.e. Rs. 265 Crore as on 10-09-2020 thereby giving healthy revenue visibility for near to medium term.

About the Company:

Kapurthala-based, Railfab Technologies Private Limited was established in 1994 by Mrs. Aruna Jain, Mrs. Meenu Jain, Mrs. Nalini Jain and Mr. Sahil Jain as a partnership firm. In 2019, the company changes its constitution from partnership firm to private limited company. The firm is engaged into 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 Bareilly (Uttar Pradesh) and Chennai (Tamil Nadu).

About the group:

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

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Railtech Technologies Private Limited, Railfab Technologies Private Limited and Techfab, together referred to as 'Railtech Group'. The consolidation is in view of a similar line of business, significant financial linkages and common management. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

The Railtech Group was established in 1990 as a partnership firm with an objective of engaging into manufacturing of railway components for Indian railway. The group have a significant reputation in the business due to a long track of operation in the aforementioned industry. Recently, the company changes its constitution from partnership firm to private limited company.

The promoters of the group, Mr. Sardeep Jain, Mr. Sunil Jain and Mr. Suresh Jain, each have an experience of around four decade in the same line of business. All the promoters are associated with the group from the beginning of the business. The extensive experience of the promoters has enabled the group to forge healthy relationships with the Indian railways.

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

• Significant Improvement in revenue and profitability

Group's operational performance has shown significant improvement since the last few years. The operating income grew by 13.42 percent in the FY2020 (Provisional) over FY2019. Operating Income for FY2020 (Provisional) stood at Rs.209.58 Crore as against Rs.184.78 Crore for the FY2019. While in the FY2021 the group have achieved a revenue of Rs.78.50 Crore as on 31st august, 2020. This is mainly due to timely completion of order even during the time of Covid-19 pandemic followed by the nationwide lockdown.

The EBITDA Margins of the group have also improved and stood at 19.88 percent for FY2020 (Provisional) as against 15.23 percent in FY2019. This is mainly due to the completion of a large number of orders with high profitability margins such as bio toilets. The PAT margin also increases to 13.67 percent in FY2020 (Provisional) as against 6.16 percent in FY2019.

Acuite believes that the group's ability to improve its revenues while maintaining its profitability margin will remain a key rating sensitivity for the overall credit profile of railtech group.

• Comfortable financial risk profile

The Financial risk profile of the group has remained comfortable marked by healthy net worth and strong debt protection metrics. The net worth of the company stood at Rs.74.27 Crore as on 31 March 2020 (Provisional) as against Rs.53.73 Crore as on 31 March 2019. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves during the same period. The gearing level (debt-equity) stood at 1.17 times as on 31 March 2020 (Provisional) as against 0.88 times as on 31 March 2019. The total debt of Rs.86.59 Crore as on 31 March 2020 (Provisional) consists of long term debt of Rs.17.03 Crore, unsecured loan amounted to Rs.36.66 Crore and working capital borrowings of Rs.32.90 Crore. The interest coverage ratio (ICR) stood comfortable at 4.93 times in FY2020 (Provisional) as against 5.38 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio improved to 0.38 times in FY2020 (Provisional) as against 0.34 times in FY2019 due to high net cash accruals during the year. Debt to EBITDA stood at 1.98 times in FY2020 (Provisional) as against 1.66 times in FY2019. This is mainly due to high external debt during the year.

Going forward, Acuite expects the company to maintain its financial risk profile and improve its net worth backed by steady accruals and absence of any major debt-funded capex plan.

Weaknesses

• Working Capital Intensive Operation

The working capital cycle of railtech group stood intensive marked by Gross Current Assets (GCA) days of 262 for FY2020 (Provisional) as against 244 for FY2019. GCA days have increased due to the rise in debtors collection period from 101 days in FY2019 to 108 days in FY2020 (Provisional). The main reason for high debtor days is partial payment by government authorities during the month of February and March. The inventory days have also increased to 89 in FY2020 (Provisional) as against 65 days in FY2019. This mainly consist of work in progress which stood high due to COVID-19 pandemic

followed by the nationwide lockdown. As a result, the average utilization of bank limits stood at ~96 per cent in the last six months ending July, 2020.

Acuite believes that the working capital operations are expected to remain at the same level with respect to the nature of the business cycle and will remain a key rating sensitivity factor.

• Tender-based business and customer concentration risk

Group's business risk profile is partially constrained by high customer concentration on the railway department and tender based nature of operations. 100% percent of revenue comes from Railways, which exposes its turnover to any change in the number of new contracts floated by Indian Railways and its ability to successfully bid for the same.

Outlook: Stable

Acuite 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 a steep decline in revenues, profitability or deterioration in the financial risk profile owing to higher-than-expected debt-funded capex or working capital requirements.

Material Covenant

None

Rating sensitivity

- Significant improvement in operating revenues and profitability margins
- Working capital intensive nature of operation

Liquidity position: Adequate

Group has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.33.15 Crore in FY2020 (Provisional) as against CPLTD of Rs.3.85 Crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.28.00 Crore to Rs.35.90 Crore during FY2021-23 against as against CPLTD of Rs.4.50 Crore each year for the same period. The company's working capital operations are intensive, marked by Gross Current Asset (GCA) days of 262 days in FY2020 (Provisional). As a result, the average utilization of bank limits stood at ~96 per cent in the last six months ending July, 2020. Company maintains unencumbered cash and bank balances of Rs.1.07 Crore as on 31 March 2020 (Provisional). The current ratio stands at 1.87 times as on 31 March 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	209.58	184.78
PAT	Rs. Cr.	28.64	11.38
PAT Margin	(%)	13.67	6.16
Total Debt/Tangible Net Worth	Times	1.17	0.88
PBDIT/Interest	Times	4.93	5.38

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
18-September-2019	Cash Credit	Long Term	9.00	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	1.22	ACUITE BBB-/Stable (Upgraded)
	Proposed Term Loan	Long Term	2.34	ACUITE BBB-/Stable (Upgraded)
	Letter of Credit/Bank Guarantee	Short Term	5.00	ACUITE A3 (Upgraded)
31-July-2019	Cash Credit	Long Term	9.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.22	ACUITE BB+/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	2.34	ACUITE BB+/Stable (Reaffirmed)
	Letter of Credit/Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
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	Short Term	5.00	ACUITE A4+ (Reaffirmed and assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term Loan	20-08-2020	Not Applicable	31-12-2023	2.13	ACUITE BBB/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3+ (Upgraded from ACUITE A3)

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About Acuité Ratings & Research:

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