Rating Rationale

30 Dec 2019

Avadh Rail Infra Ltd.

Brickwork Ratings upgrades the ratings with a revision in outlook from positive to stable for the enhanced Bank Loan facilities of Rs. 74.25 Crs of Avadh Rail Infra Ltd.

Particulars:

Facilities Availed	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Tenure	Previous Rating# 19 Nov 2018	Present Rating^
Fund Based					
LAP	21.82	-	Long Term	BWR BB + Positive	BWR BBB- (Stable) Upgrade
Cash Credit	15.00	30.00			
Non Fund Based					
BG	10.00	44.25	Short Term	BWR A4+	BWR A3 Upgrade
Total	46.82	74.25*	Rs.Seventy Four Crores and Twenty Five Lakhs Only		

**Includes proposed CC and BG of Rs.8Crs and Rs.30Crs respectively.*
\# BWR issued Rating Not Reviewed Advisory on 20 Nov 19 for the previous rating.
^ Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Please refer to Annexure I for bank facilities details.

RATING ACTION / OUTLOOK

The upgrade in the ratings factor in Avadh Rail Infra Ltd's (ARIL or 'the company') improved operating revenues and profit levels over the previous year, besides improvement in its tangible net worth, debt protection metrics and improved overall gearing of the company. The ratings continue to derive comfort from the promoter's extensive business experience in railway wagon parts manufacturing industry, established relationships with reputed customers namely, the Indian Railways and metro rail corporations, coupled with a current order book of Rs.243.74Crs.

The ratings, however, remain constrained by customer concentration risks and risks arising out of substantial investments in sister concerns concerns.

The ratings were moved to the Rating Not Reviewed category on 20November 2019, as the information was not received from the company at that time to enable BWR to carry out a rating review on its due date.

Rating Outlook: Stable

BWR believes that **Avadh Rail Infra Ltd**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case of substantial improvement in operating parameters. BWR may revise its outlook from 'Stable' to 'Negative' in case there is a deterioration in the financial parameters over the medium term.

Key Rating Strengths

- **Extensive experience of directors:** The director of the company, Mr.Subhash C Saraff, has business experience of over 4 decades and is assisted by his son, Mr.Abhishek Saraff, along with the qualified engineers, professional managers and experienced consultants.

- **Established relationship with customers:** The company's R&D initiatives and technical collaboration with a number of global industry majors has helped ARIL in establishing long term relationships with its clients namely, the Indian Railways and metro rail corporations.

- **Improved Sales & Profitability:** Operating revenues of the company increased by 32.90% in FY19 vis-a-vis FY18, owing to substantial orders received from the Indian Railways. PAT also improved from Rs.2.29Crs in FY18 to Rs.4.66Crs in FY19. Further, the company has recorded a revenue of Rs.93.49Crs in H1FY20. EBITDA and PAT margins of the company have been growing since FY17 and the same stood at 8.38% and 3.52%, respectively in FY19.

- **Improved debt protection metrics and moderate tangible net worth:** ARIL's debt protection metrics, interest coverage ratio (ISCR) improved to 2.09x during FY19 from 1.71x in FY18, owing to improved EBITDA levels, Debt service coverage ratio (DSCR) improved to 2.09x in FY19 from 1.71x in FY18. Further the tangible net worth of the company has improved to Rs.53.26Crs in FY19 against Rs.48.60Crs in FY18.

- **Healthy order book:** The business profile of the company is expected to improve over the medium term on the back of healthy outstanding order book position. Further, with limited competition in the market, profitability is expected to remain robust over the medium term.

Key Rating Weaknesses

- **Customer concentration:** The company derives more than 99% of its operating revenues from the Indian Railways, resulting in customer concentration risks.

- **Substantial investment done outside the company in sister concerns.**The company has done a substantial investment of Rs.19.88Crs in its sister concerns coupled with investments in the residential property.
- **Exposure to competition and risks inherent in tender-based business:** ARIL primarily works for public sector units where orders are acquired through tenders. Being in a tender-based

business, the company's growth depends on success in procuring tenders. Thus, it has low bargaining power with its customers.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, in case the company maintains its momentum of growth in FY20, with adequate improvement in net worth, profitability margins and reduction in investment in group concerns, besides acceptable debt protection metrics and other metrics also favoring an upgrade.

Negative: BWR may revise the ratings downwards if the company's gearing deteriorates from the current levels, there is a decline in profitability margins and operating income estimated for FY20 is not achieved.

LIQUIDITY: ADEQUATE

The company is availing more than 90% of its facilities as WCDL for which the company has sufficient EBITDA. EBITDA improved from Rs.7.99Crs in FY18 to Rs.11.11Crs in FY19, against the interest obligations of Rs.4.12Crs in FY19. Further, cash accruals stood at Rs.7.16 and cash equivalent of Rs.4.73Crs sufficient to meet the repayment obligation of Rs.3.66 Crs in FY20.

ABOUT THE COMPANY

Avadh Rail Infra Limited, incorporated in July 1980, with headquarters in Lucknow. Avadh Rail Infra supplies critical rubber and rubber-to-metal bonded components to Indian Railways for freight wagons, passenger coaches, locomotives and tracks. The company has four manufacturing plants of which 2 are located in Haridwar and 1 each in Lucknow and Chennai.

Company's Financial Performance

Key Financials			
Result Type	Units	31/Mar/2018	31/Mar/2019
		Audited	Audited
Total Operating Income	Rs.in Crs	99.67	132.46
OPBDIT	Rs.in Crs	7.99	11.11
PAT	Rs.in Crs	2.29	4.66
Tangible Net Worth	Rs.in Crs	48.60	53.26
TOL/TNW	Times	1.06	1.38
Current Ratio	Times	2.51	1.82

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY - Bank loans of Rs.25Crs have been migrated to issuer non cooperation and have been rated IND BB+(Stable)/A4+ (INC) by India Ratings on 31 May 2018.

RATING HISTORY (including ratings suspended / withdrawn)

Facility	Rating Assigned (2019)			Rating History			
	Tenure	**Amount (Rs. Crs)**	**Rating**	**20 Nov 2019**	**19 Nov 2018**	**2017**	**2016**
CC	Long Term	30.00	BWR BBB- (Stable)	Rating Not Reviewed Advisory	BWR BB+ (Positive)	NA	NA
BG	Short Term	44.25	BWR A3		BWR A4+		
Total		**74.25***	Rs.Seventy Four Crores and Twenty Five Lakhs Only				

**Facility*

**Including proposed CC and BG of Rs.8Crs and Rs.30Crs respectively.*

Any other information: Not Applicable

Hyperlink/Reference to Applicable Criteria

1. General Criteria
2. Approach to Financial Ratios
3. Manufacturing Companies
4. Short Term Debt

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Avadh Rail Infra Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Union Bank of India	Cash Credit	30.00	NIL	30.00
2		Bank Guarantee	NIL	44.25	44.25
TOTAL					**74.25**

Total :Rs.Seventy Four Crores and Twenty Five Lakhs Only

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