

Rating Rationale

17 Feb 2021

Avadh Rail Infra Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹71.77Crores of Avadh Rail Infra Limited.

Particulars:

| Facilities Availed | Amount (₹ Crs) | | Tenure | Rating [^] | |
|-----------------------|---------------------------|--------------------------|--|--|------------------------------------|
| | Previous Amount (Rs. Crs) | Present Amount (Rs. Crs) | | Previous Rating 30 Dec 2019 [#] | Present Rating |
| Fund Based | 30.00 | 36.77 | Long Term | BWR BBB-(Stable) | BWR BBB-(Stable) Reaffirmed |
| Non-Fund Based | 44.25 | 35.00 | Short Term | BWR A3 | BWR A3 Reaffirmed |
| Total | 74.25* | 71.77 | Rupees Seventy-One Crores & Seventy Seven lakhs Only. | | |

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

Published Advisory on 13 Jan 2020 for likely delay in the surveillance review.

[^] 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 reaffirmation in the ratings of Avadh Rail Infra Ltd's (ARIL or the company), factors in the improved operating revenues and profit levels over the previous year and stable debt protection metrics. The ratings continue to derive comfort from the promoters' extensive business experience in railway wagon parts manufacturing industry, established relationships with reputed customers namely, the Indian Railways and metro rail corporations, with a comfortable current order book of Rs.202Crs.

The ratings, however, remain constrained by customer concentration risks and risks arising out of substantial investments in sister concerns with a resultant decline in adjusted tangible net worth and adjusted overall gearing of the company.

Impact of COVID 19: During the Covid19 pandemic, production was halted for almost 60 days. Production at the railways was also impacted, resulting in the rescheduling of orders from them. In Q3FY21, the company has achieved a turnover of approx Rs. 106Crs despite the lockdown and rescheduling of orders by railways. The company had applied for a moratorium from its lenders, under the rules, and the outstanding interest and principal were serviced in Sep 2020. Further, it has availed emergency line of funding (GECL) for Rs. 11.77 Crs, which is included in the rated debt. OTR was not applied for.

Rating Outlook: Stable.

BWR believes the ARIL's business risk profile is likely to 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' if the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Key Rating Drivers

Rating Strengths:

- **Extensive experience of directors:** The promoter director of the company, Mr Subhash C Saraff, has a 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 many global industry majors have helped ARIL establish long-term relationships with its clients, namely, the Indian Railways and metro rail corporations.
- **Improved Sales & Profitability:** The company's top line registered a growth of 39.71% in FY20. Further for the years FY17~20 the company has reported a substantial CAGR of 30.36%, owing to significant orders received from the Indian Railways. Additionally, OPM has improved to 8.5% in FY20 from 8.38% in FY19 due to increased revenues and EBITDA. Substantial growth of 40.29% is seen in PAT in FY20, and the same stood at Rs.6.54Cr in FY20 on account of the company's strategic decision to participate in higher margins tenders. Coupled with higher sales volume, the profitability of the company increased in FY 2019-20 due to improved margins NPM continues to remain adequate at 3.53x in FY20.
- **Stable debt protection metrics:** ARIL's debt protection metrics continue to remain comfortable. Interest coverage ratio (ISCR) at 2.87x in FY20 and debt service coverage ratio (DSCR) at 2.06x in FY20, as against ISCR at 2.70x in FY20 and DSCR at 2.09x in FY19.
- **Healthy order book:** The business profile is expected to improve over the medium term on the back of healthy outstanding order book position of Rs.202Cr as on 31 Jan 2021. Further, with limited competition in the market, profitability is expected to remain robust over the medium term.

Credit Risks:

- **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 made substantial investment of Rs.20.31 Crs in its sister/group concerns, coupled with investments in real estate. This has negatively impacted its adjusted net worth and

adjusted overall gearing. The adjusted tangible net worth stood at Rs. 33.17Crs (excluding the investments done in sister/group concerns) in FY20 and adjusted TOL/TNW ratio at 3.88x.

- **Exposure to competition and risks inherent in tender-based business:** ARIL primarily works for the government sector / 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

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below. Further, the investments and loans to sister/group companies are excluded from the networth while calculating the Analysed Networth and gearing of the company.

Rating Sensitivities:

Positive: BWR may revise the ratings upward in case ARIL's maintains the growth in scale of operations by at least 25% in FY22, with an increase in adjusted tangible net worth and improvement in adjusted overall gearing to below 2x via liquidation of investments done outside the company, besides improvement in profitability margins and debt protection metrics along with other metrics also favouring an upgrade.

Negative: BWR may revise the ratings downwards if the company's gearing deteriorates from the current levels, profitability margins decline, and operating income estimated for FY21 is not achieved.

Liquidity: Adequate

The average utilisation of its cash credit limits stood at around 66.10% respectively over the past 6 months. These limits were primarily utilised at above 90% level during the peak season (March-May 2020). The company has been generating adequate EBITDA to service the interest for the past three financial years and continues to remain adequate as per the projections. ARIL has generated net cash accruals of around Rs.10.77 Crs in FY20 and expects to generate net cash accruals of around Rs. 10.41Crs in FY21, which are adequate to cover repayment obligations of around Rs 2-3 Crore in FY21. With low utilisation of the limits, the company has a buffer of unutilised limits to cash accruals for the needs-based funding in the near future. It's unencumbered cash and cash equivalents stood at Rs.0.78 Cr in FY 20 which also provides additional liquidity support.

About the Company

ARIL, incorporated in July 1980, with headquarters in Lucknow, 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.

Key Financial Indicators:

| Particulars | FY19 (A) | FY20 (A) |
|--|----------|----------|
| Total Operating Income (Rs. Crs) | 132.46 | 185.06 |
| EBITDA (Rs. Crs) | 11.11 | 15.83 |
| PAT (Rs. Crs) | 4.66 | 6.54 |
| Tangible Net Worth (Rs. Crs) | 53.26 | 59.80 |
| Tangible Net Worth (adjusted)(Rs. Crs) | 27.05 | 33.17 |
| Gearing (TOL/TNW) Ratio (times) | 1.38 | 1.63 |
| Gearing (TOL/TNW) Ratio (adjusted) (times) | 3.85 | 3.88 |
| Current Ratio (times) | 1.82 | 1.64 |

Status of non-cooperation with previous CRA (if applicable)- Bank loans of Rs.25Crs have been migrated to issuer non-cooperation and rated IND BB+(Stable)/A4+ by India Ratings on 31 May 2018.

Any other information: Nil

Rating History for the last three years (including withdrawal and suspended)

| Facility | Rating Assigned (2021) | | | Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable | | | | | | |
|----------|------------------------|-------|-------------------------|---|------------|-------|-------------------------|-------------|-------|--------------------------|
| | Tenure | | | 2020 | 30 Dec2019 | | | 19 Nov 2018 | | |
| BLR | FB | 36.77 | BWR BBB- (Stable) | NA | FB | 30.00 | BWR BBB- (Stable) | FB | 36.82 | BWR BB+ (Positive) |
| | NFB | 35.00 | BWR A3 | | NFB | 44.25 | BWR A3 | NFB | 10.00 | BWR A4+ |
| | Total | 71.77 | | | Total | 74.25 | | Total | 46.82 | |

Advisory issued for Delay in the rating review on 13 Jan 2021.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

| Analytical Contacts | |
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Avadh Rail Infra Limited
ANNEXURE I
Details of Bank Loan Facilities rated by BWR

| S.no | Type of Facility | Long Term | Short Term | Total (Rs. Crs) |
|--------------|------------------|-----------|------------|-----------------|
| 1 | Cash Credit | 25.00 | - | 25.00 |
| 2 | CECL | 2.50 | - | 2.50 |
| 3 | UGCEL | 9.27 | - | 9.27 |
| 4 | BG | - | 35.00 | 35.00 |
| Total | | | | 71.77 |

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