Patil Rail Infrastructure Private Limited

Instrument	Amount	Rating Action
	In Rs. Crore	
Non Convertible Debentures	135.00	[ICRA]BB(Stable); assigned
Total	135.00	

ICRA has assigned a long-term rating of [ICRA]BB (pronounced as ICRA double B) to the Rs.135.00 crore* Non Convertible Debentures to be issued by Patil Rail Infrastructure Private Limited (PRIPL)†. The outlook on the long-term rating is stable.

To arrive at the ratings, ICRA has taken a consolidated view of PRIPL along with its three subsidiaries namely- Daya Engineering Works Private Limited, Daya Technical Services Private Limited and Icon Sleeper Track Private Limited owing to common management and significant operational and financial linkages between these entities. (PRIPL along with three subsidiaries are herein after referred to as 'Group')

The assigned rating takes into account the group's healthy order book size supported by recent additions to the tune of Rs.692 crore worth projects resulting in outstanding order book of Rs.1180 crore as on September 2nd, 2016 (2.9 times the operating income of FY2016) provides medium term revenue visibility. Further, the rating derives support from the relatively favourable repayment terms of the proposed NCD viz.., lower interest rate and moratorium on principal repayment for next four years- to be repaid as a single bullet payment in September, 2020 which would aid the liquidity in the medium term. The existing term loans from IDFC would be prepaid from the NCD proceeds. Part of the NCD proceeds would also be deployed towards margin money requirements for securing additional non-fund based limits to aid the growth in turnover. The rating favourably factors in the long track record of the group in manufacturing of concrete sleepers, its empanelment with the Indian Railways (IR), dominant size with an installed capacity of 3.97 million and established relationship with reputed clientele viz. Indian Railways, L&T, TATA Aldesa etc. ICRA also notes that the recent revision in price escalation formula for IR contracts with inclusion of due weightage to more cost components is a positive as it is expected to result in improvement in operating margins for the company's sleeper segment.

The rating is however constrained by high utilization of working capital limits in the past 15 months reflecting stretched liquidity position and the below average financial profile of the group owing to net losses for two consecutive years (FY2014 and FY2015) and deterioration in return indicators due to low capacity utilization of the sleeper segment as a result of decline in order flow from IR. Further, the coverage indicators are modest as reflected by TD/OPBDITA of 3.62 times, NCA/Debt of 12% and interest coverage of 1.42 times in FY2016.Further, the group is exposed to customer concentration risk as Indian Railways accounted for ~72% of sales in FY2016. Any slowdown in orders from IR would have adverse impact on revenue and profitability as witnessed in the past. The rating is also constrained by high receivables cycle in FY2016 of which 43% are outstanding for more than six months. However, recent delegation of power to zonal level from railway board could result in shorter payment cycle going forward. Further, ICRA notes the large capital expenditure plans of the group over the next three years for manufacturing of fasteners, composite sleepers and proposed investments in joint venture with China Railway Construction Heavy Industry Co Ltd (CRCHI) for fastenings and turnouts. However, the proposed capex would be supported predominantly through proceeds from NCD and internal accruals.

Going forward, the ability of the group to ensure timely completion of capital expenditure planned for manufacturing of fasteners and composite sleepers and control overall indebtedness by relying on internal accruals for the proposed capex will be key rating monitorables. Further, efficient management of the working capital requirements with timely collection of receivables, ability to improve the capacity utilization levels and augment its EBITDA margins would remain critical to achieve planned revenue growth and profits.

Company Profile

Patil Rail Infrastructure Private Limited was incorporated in 1996 by Mr.L.S.Patil. The group is engaged in the manufacturing of Concrete Sleepers, High Tensile Steel Wires, Concrete Manholes and trading of fasteners, SGCI inserts, composite sleepers etc. The group has eleven plants for manufacturing of concrete sleepers spread across the country with annual installed capacity of 3.97 million units and three plants for manufacturing high tensile wires with annual installed capacity of 25200 MT. The key customers of the group are Indian Railways, Tata Aldesa JV,IL&FS Rail Limited (rated [ICRA]A(SO)(Stable)), L&T (rated[ICRA]AAA(Stable)), Delhi Metro Rail Corporation (DMRC), ITNL(rated [ICRA]A (Stable),ENSO Rail,Mumbai Metro One Pvt Ltd(rated [ICRA]BBB+(Negative)),IRCON International, Ferrovia Transrail Solutions Pvt. Ltd etc.

Recent Results
As per the unaudited consolidated financials for FY2016, the group reported operating income of Rs.412.38 crore and PAT of Rs.2.45 crore against operating income of Rs.426.60 crore and net loss of Rs.11.02 crore during FY2015.

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