

October 25, 2017

Track Innovations (India) Private Limited

Summary of rated instruments

Instrument	Amount	Rating Action
	Rs. crore	
Cash Credit	15.00	[ICRA] B+ (Stable), upgraded from [ICRA]B
Term Loan	0.27	
Unallocated	6.73	
Bank Guarantee	2.00	[ICRA]A4; reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 15.27-crore¹ fund-based bank facilities and Rs.6.73-crore unallocated amount of Track Innovations (India) Private Limited (TIPL or the company) from [ICRA]B (pronounced ICRA B) to [ICRA]B+ (pronounced ICRA B plus). The outlook on the long-term rating is Stable. ICRA has also reaffirmed its short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs.2.00-crore short-term facilities of the company².

Rationale

The rating upgrade positively factors in the healthy near-term revenue visibility by virtue of fresh contracts awarded by the Indian Railways (IR), and another project by GIL-TPL³ joint venture to TIPL. The ratings continue to take into account the extensive experience of the management in the concrete sleeper-manufacturing industry and the company's reputed client base that includes Northern Railways, and Larsen & Toubro Limited. ICRA takes note of TIPL's stature as one of the approved vendors by the Research Designs & Standards Organisation (RDSO), which authorises it to participate in tender for the IR contracts. Notably, this also provides an effective entry barrier for new entrants in the industry. The ratings also take into account the favourable demand outlook for rail products on the back of substantial growth prospects of the Indian Railways' infrastructure.

The ratings, however, are constrained by the company's moderate scale of operations, and its dependence on orders from Northern Railways that exposes its revenues to variation in order inflows. Nonetheless, TIPL has diversified its customer base and added a few private players to its customer list. Further, low order inflows during the past few years have resulted in low capacity utilisation, which have ultimately resulted in the fixed costs remaining unabsorbed. The operating profit margin declined from 7.98% in FY2015 to 5.37% in FY2017. The company's financial profile is characterised by moderate capital structure and coverage indicators.

Going forward, the company's ability to scale up its operations with a sustained improvement in its profitability and debt-coverage indicators will be the key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA rating publications

³ GIL-TPL – GMR Infrastructure Limited and Tata Projects Limited

Key rating drivers

Credit strengths

- **Established business track record and extensive experience of promoters:** TIPL has been in the industry since 1989 and has a track record of over three decades in the concrete sleepers-manufacturing industry. Its promoters have rich experience in the field and have been able to establish strong relationships with its key customers.
- **Association with Northern Railways reduces counterparty risk:** TIPL is approved by RDSO, Ministry of Railways, Government of India (GoI) for manufacture and supply of pre-stressed concrete sleepers. This provides an effective entry barrier for any new entrant to the industry. However, the orders are completely tender based and hence the company's revenues remain exposed to variation in order inflows.
- **Turnover increases in FY2017; healthy order book provides near-term revenue visibility:** TIPL reported approximately 12% growth in its turnover in FY2017 driven by higher execution of orders and addition of private players to its customer portfolio. Moreover, the company has been awarded another contract by the Railways, to be executed in FY2018 which provides revenue visibility over the near term at least.
- **Locational advantages due of proximity to railway lines:** TIPL's plant is located near the Chandigarh Railway lines with a production capacity of 0.03 lakh sleepers per annum. The factory is in close proximity to the company's customers and thus, ensures logistics convenience.
- **Favourable demand outlook for rail products:** The demand for railway track components and fittings is expected to grow on the back of Indian Railways' expansion plans and replacement demand.

Credit weaknesses

- **Moderate scale of operations:** Despite its long operational track record, the company's business scale remains moderate as reflected by a turnover of ~Rs. 33 crore in FY2017.
- **Significant customer-concentration risk, future revenue visibility dependent on the ability of the company to successfully bid for tenders:** TIPL remains dependent on orders from Northern Railways. As a result, its revenues remain exposed to variation in order inflows.
- **Moderate financial profile:** Low order inflows in the past few years have resulted in low capacity utilisation. As a result, the fixed costs remained unabsorbed. This in turn impacted the operating profit margin, which declined from 7.98% in FY2015 to 5.37% in FY2017. The net profit has also remained low over the years. Consequently, coverage indicators remained subdued.
- **Intensely competitive market and L-1-based bidding system for most Indian Railways tenders limit overall profitability:** The company derives nearly 90% of its revenues from the Indian Railways, wherein the orders are allotted on the basis of on the lowest bidder (L-1)-bidding system, thereby resulting in aggressive bidding by the payers. This in turn limits the profitability of all players to an extent

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 1989, TIPL manufactures pre-stressed concrete monoblock line sleepers and other special types of sleepers. It mainly caters to the Indian Railways, Northern Railway (NR) zone, under a contract agreement and is approved by RDSO, Ministry of Railways, GoI to manufacture the same. In recent years, the company has added a few private sector companies to its client list. Its manufacturing facility is located in the Railway Colony of Chandigarh.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	29.37	32.88
PAT (Rs. crore)	0.11	0.13
OPBDIT/ OI (%)	6.13%	5.37%
RoCE (%)	10.43%	14.10%
Total Debt/TNW (times)	2.13	0.34
Total Debt/OPBDIT (times)	4.85	0.83
Interest Coverage (times)	1.58	1.57
NWC/ OI (%)	31%	4%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net worth; NWC: Net Working Capital; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

Source: Financial statements of TIPL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

SNo	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				October 2017	November 2016	October 2015	October 2014	
1	Cash Credit	Long Term	15.00	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B	[ICRA]B	
2	Term Loan	Long Term	0.27					
3	Unallocated	Long Term	6.73					
4	Bank Guarantee	Short Term	2.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	15.00	[ICRA]B+ (Stable)
-	Term Loan	2009	-	2018	0.27	
-	Unallocated	-	-	-	6.73	
-	Bank Guarantee	-	-	-	2.00	[ICRA]A4

Source: TIPL

Contact Details

Analyst Contacts

Sabyasachi Majumdar

+0124-4545 304

sabyasachi@icraindia.com

Vipin Jindal

+0124-4545 355

vipin.jindal@icraindia.com

Manish Ballabh

+0124-4545 812

manish.ballabh@icraindia.com

Sugandha Arora

+0124- 4545 398

sugandha.arora@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500