September 19, 2019

Titagarh Firema S.p.A.: [ICRA]BBB- (Stable)/A3 ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (in million Euros)	Rating Action
Term Loan	50.00	[ICRA]BBB-(Stable); Assigned
Fund Based/Non-Fund Based Facilities	50.00	[ICRA]BBB-(Stable)/A3; Assigned
Total	**100.00**[1]	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings consider the established business position of the Titagarh Group in the domestic wagon manufacturing business, the strategic importance of Titagarh Firema S.P.A. (TFA) within the Group and its business synergy with Titagarh Wagons Limited (TWL) that provides strong technical capability to the Group for supply of rolling stocks to the domestic urban transportation network. The rating considers the recent order for supply of metro coaches to the Pune Metro that TWL, in collaboration with TFA, has secured. ICRA, while assigning the rating, has taken comfort from TFA's strong technical capabilities, having designed and supplied railway coaches for the competitive European market. Notwithstanding the strong operating profile, TFA's financial credit profile is tempered by its aggressive capital structure, weak debt coverage indicators and financial losses incurred in the last two financial years, which were partly on account of penalties provisioned against the company's legacy orders in hand as well as high overheads compared to its current scale of operations. ICRA notes that these legacy orders were secured prior to the takeover of the company by TWL. While execution of the balance orders is likely to constrain its profitability in the current financial year, the company's financial performance is expected to turn around as it starts executing the large orders that it secured recently. ICRA has also considered the various steps taken by the Titagarh Group to turnaround the company including a change in management. The assigned ratings positively factor in TFA's healthy order book position as on date, which is over 4 times of its revenue registered in FY2019. The large order book position provides revenue visibility and execution of these orders is likely to result in healthy accrual, which in turn would lead to a steady improvement in capital structure and debt coverage indicators. TFA's extended debt repayment schedule along with its competitive cost of debt would support its liquidity, going forward.

At the Group level, TWL's credit metrics had weakened in the past few years because of losses suffered in its overseas subsidiaries as well as depressed prices in the domestic market. Besides, capacity utilisation was inadequate because of fewer wagon orders secured from the Indian Railways (IR). The ratings factor in the losses incurred by the Group, which in turn led to an erosion of the net worth and consequent weakening of the capital structure and debt coverage indicators. ICRA expects the financial indicators to improve as TWL's loss-making French subsidiary, Titagarh Wagons AFR, has recently been sold off. Moreover, the Group's consolidated order book position has also improved after TWL secured a large order from IR in FY2019 worth over Rs. 1,500 crore for supply of 5,058 wagons, which is expected to be executed in the short term. TWL's proposed merger with its subsidiary, Cimmco Limited, is also likely to benefit the company in terms of higher scale and consequent cost optimisation. ICRA notes that post-merger, TWL would have the largest wagon manufacturing capacity in the country. While the IR's move to stop free supply of materials to the wagon

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[1] *Though the term loan and working capital facilities of the company are denominated in foreign currency, ICRA's rating for the same is on a national rating scale, as distinct from an international rating scale*

manufacturers has impacted the working capital position of wagon manufacturers including TWL, the demand outlook for the industry remains healthy. Going forward, the overall credit profile of the Titagarh Group would also have a bearing on the standalone risk profile of TFA. Hence, the Group's ability to execute its orders profitably while maintaining adequate liquidity would be the key rating sensitivity.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that TFA will benefit from its healthy order book position and the favourable demand outlook for metro coaches in the domestic market.

Key rating drivers and their description

Credit strengths

Strategic importance and business synergy between TFA and TWL – TFA's operating profile is of strategic importance to the Titagarh Group. Acquisition of TFA by TWL has provided the latter access to TFA's technical knowhow in designing and manufacturing advanced railway coaches, train power systems and metro coaches. The technical collaboration has helped TWL become technically qualified for supply of rolling stocks for various metro projects across the country. TWL has recently received a contract to supply coaches to the Pune Metro project.

Strong technical capabilities, having designed and supplied railway coaches for the European market – TFA, in its current form of ownership as well as prior to the takeover, has been operating in the competitive European market for a long period. It has supplied rolling stocks designed in-house for metro, tram and railway services across Italy and other European regions. ICRA takes into cognisance high safety and passenger comfort standards prevalent in the European region and the company's technical capabilities in manufacturing railway coaches conforming to such standards.

Strong order book position at the standalone and Group levels – As on March 31, 2019, TFA's total outstanding orders were valued at 306.5 million euros, which was over 4 times the company's total execution value in FY2019. The strong order book position provides revenue visibility to the company. The Titagarh Group's consolidated order book of over Rs. 6,500 crore as on date provides additional comfort to the rating.

Extended repayment schedule and competitive cost of debt – TFA has an extended debt repayment schedule till FY2027 with a 39-month moratorium period. This coupled with the low cost of debt supports the overall liquidity position of the company.

Favourable demand outlook for metro coaches and wagons in domestic market – Demand for metro coaches is likely to remain strong in the domestic market given the focus on developing mass urban transport projects across the country. Additionally, demand for wagons is also likely to remain strong given the Indian Railways' focus on expanding its freight business.

Credit challenges

Credit metrics affected by losses suffered in last two financial years – TFA incurred losses in the last two financial years because of provisions against penalties as well as high overhead costs vis-a-vis its scale of operations. Going forward, the overall scale and profitability are likely to improve as the company begins to execute its new orders and completes execution of its legacy orders.

Aggressive capital structure and debt coverage indicators both at the standalone and Group levels – TFA's capital structure is aggressive with a gearing of 2.96 times as on March 31, 2019. ICRA notes that the company funded its losses in the last two financial years with additional loans that led to a gradual deterioration of the capital structure. With the improvement in profitability envisaged, TFA's capital structure is expected to improve steadily, going forward. The

consolidated capital structure is also aggressive, which is a result of some erosion in net worth in the last few years. However, healthy cash and liquid investment portfolio of the Group supports its liquidity.
Risk of additional liability on execution of legacy orders – TFA would be executing its balance legacy orders in the current financial year. Execution of legacy orders is likely to constrain its profitability. Any additional liability on these orders would exert pressure on the overall cash flows of the company.

Liquidity position: Adequate

TFA's liquidity is **adequate** because of its prolonged debt repayment schedule and healthy free cash and liquid investment balance of 1.15 million euro. ICRA noted that the repayment of TFA's long-term bank loan repayments start in FY2022. This coupled with the low cost of foreign currency loan of 50 million euro indicate that the company's overall payment commitments to the bank is likely to remain low vis-a-vis its projected cash flows from operations in the next two financial years. The overall liquidity is also supported by unutilised working capital lines.

Rating sensitivities

Positive triggers – ICRA may upgrade TFA's ratings in case of an improvement in the overall credit profile of the Titagarh Group. A meaningful improvement in the scale of operations of the standalone company and its profits may also be a trigger for ratings upgrade.

Negative triggers – Negative pressure on TFA's ratings may arise if there is a further deterioration in the financial position of the Titagarh Group. Losses at the standalone company or a slowdown in order book addition may also be areas of concerns.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The rating derives comfort from the financial flexibility of the company for being a part of the Titagarh Group.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Titagarh Firema S.P.A. (TFA) was incorporated in Italy after the acquisition of an Italian company named Firema Transporti SPA (FTS) by Titagarh Wagons Limited (TWL) in July 2015. TWL had initially acquired a 90% stake in TFA through extraordinary administration with the balance 10% stake held by the Adler Pelzar Group. Subsequently, the minority stake was acquired in 2017.

Titagarh Wagons Limited (TWL), is the flagship company of the Titagarh Group, which has over two decades of experience in supplying various types of wagons and railway coaches to the Indian Railways. The Group has experience in manufacturing freight wagons, passenger trains, electric multiple units, bailey bridges etc and has recently ventured into shipbuilding and manufacturing of defence equipment.

As per provisional results, in FY2019, TFA reported a net loss of 2.2 million euro on an operating income of 66 million euro. In FY2018, the company reported a net loss of 10.5 million euro on an operating income of 104 million euro.

Key financial indicators (standalone)

	FY2018	FY2019 (Provisional)
Operating Income (million euro)	104.0	66.0
PAT (million euro)	-10.5	-2.2
OPBDIT/OI (%)	-9.46%	0.69%
RoCE (%)	-15.71%	-0.86%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	3.0
Total Debt/OPBDIT (times)	-4.2	114.9
Interest Coverage (times)	-2.6	0.2
DSCR	-0.2	0.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					19-Sep-2019			
1	Term Loan	Long Term	50.00	50.00	[ICRA]BBB-(Stable)	NA	NA	NA
2	Fund-Based/Non-Fund Based Facilities	Long Term/Short Term	50.00	0	[ICRA]BBB-(Stable)/A3	NA	NA	NA

Amount in million euro
Source: Titagarh Firema S.P.A.

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (million euros)	Current Rating and Outlook
	Term Loan	FY2019	6M Euribor + 2.65%	FY2027	50.00	[ICRA]BBB- (Stable)
	Fund Based/Non-Fund Based Facilities	NA	NA	NA	50.00	[ICRA]BBB- (Stable)/A3

Source: Titagarh Firema S.P.A.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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