



Press Release

K&R Rail Engineering Limited

November 08, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	1.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Revised and removed from Issuer Not Cooperating category	Simple
Short Term Bank Facilities	54.50	IVR A3 (IVR A Three)	Revised and removed from Issuer Not Cooperating category	Simple
Total	56.00	Rupees Fifty-Six Crore Only.		

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier Infomerics has moved the ratings assigned to the bank facilities of K&R Rail Engineering Limited into issuer not cooperating category due to non-submission of information by the company. Now the company has duly submitted all the required information for a detailed review and Infomerics has revised & removed the rating from 'ISSUER NOT COOPERATING' category.

The revision of the ratings assigned to the bank facilities of K&R Rail Engineering Limited. take into account steady operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics, healthy order book position providing medium term revenue visibility with proven project execution capability, experienced promoters & qualified management team, proven project execution capability and reputed clientele.

The ratings, however remains constrained by thin profitability margins, customer concentration, project execution risk and susceptibility of operating margin to volatile input



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prices. The company has recently bagged \$500million cable car project in Nepal the execution and the progress remains to be seen.

Key Rating Sensitivities:

Upward Factors

- Successful commissioning and completion of projects
- Significant increase in scale of operation and profitability.

Downward Factors

- Sharp changes in leverage
- Decline in profitability and elongation in operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Steady operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics

The company has seen their top line grow from Rs. 195.30 crore in FY22 to Rs. 308.16 crore in FY23 consequently the EBITDA in absolute terms has grown from Rs. 11.53 crore in FY22 to Rs. 12.17 crore in FY23 supported by the execution of the existing order book. The company's financial risk profile remains comfortable with an overall gearing ratio which remained strong at 0.15x as on March 31, 2023 improved from 0.25x as on March 31, 2022 due to increase in tangible networth of the company in FY23. The interest coverage ratio has also remained strong at 8.22x in FY23. TOL/TNW has improved from 0.86x as on 31-Mar-22 to 0.75x as on 31-Mar-23 and Total Debt to GCA stood at 1.78 years in FY23 as against 1.73 years in FY22.

Healthy order book position providing medium term revenue visibility with proven project execution capability

The company has an order book position of Rs. 2,448.03 crore as on July 1, 2023 with the order book providing revenue visibility for the next three years. Over the past years, the entity has successfully completed many projects and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities. The company has also secured \$500 million cable car project which is still in initial stages.



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Experienced promoters & Qualified management team

The company was established by Mr. Ajaz Farooqi & Asma Farooqi, However, day to day operation is being managed by team of professional directors having an experience of more than a decade. The Directors are being supported by team of professional who is having a vast experience in the railway engineering field as majority of them are the retired senior employee of the Indian Railways.

Proven project execution capability and reputed clientele

Over the past years, the entity has successfully completed many projects majorly in South Costal Railway region and ensured timely completion of all its projects. The repeat orders received from its clientele validate its execution capabilities. The management also contends that many of the projects they completed before the schedule and received the bonus for the same. The company has built up a strong clientele over the years, which is constantly expanding. Some of the reputed clients served by the company are Zuari Cements Ltd., The Ramco Cements Ltd., Jaypee Balaji Cement Project, ACC Ltd., Kakinada Seaports Ltd., Paradip Port Trust, AP State Ware Housing Corporation, Essar Constructions (I) Ltd, JSW Cement Ltd, Tata Projects (Subarnarekha Port) etc. With such strong clientele company expects constant flow of orders and to maintain its steady growth.

Key Rating Weaknesses

Thin profitability margins

The profitability margins of the company remains thin with EBITDA margins decreased by ~196 bps in FY23 i.e. from 5.91% in FY22 to 3.95% in FY23. This decreased mainly due to increase in raw material consumption cost, salary and wages and other expenses. PAT margin also decreased by ~141 bps i.e., from 3.10% in FY22 to 1.69% in FY23 in line with EBIDTA margin. Return on Capital Employed (ROCE) also decreased from 15.88% in FY22 to 10.11% in FY23.

Customer concentration

The company faces high customer concentration with their top 5 customers accounting for 90% of the total sales, their top customer accounting for almost 50% of the total sales in FY23. However repeat orders from customer and their reputed stature provides comfort.



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Project execution risk

Since the company is into construction it remains exposed to project execution risk. The value of a project is measured by the ability of the entity to complete any project in a timely manner and in compliance of all committed specifications. Any delays in project execution can have a negative impact on collections from customers and saleability of projects, which can lead to constrained liquidity. Civil construction companies also face challenges relating to shortage of labour, equipment and availability of key raw materials on time. Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.

Susceptibility of operating margin to volatile input prices

Major raw materials used are steel & cement and in road construction activities are stone, steel, cement and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including subcontracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

K&R Rail Engineering Ltd.'s liquidity is adequate marked by ~32.85% average utilisation of fund-based working capital limits and ~23.25% average utilisation of non-fund based working capital limits for last 12 months ended September, 2023. It expects sufficient cushion in cash accrual against its scheduled debt repayment obligation. The Current Ratio of the company stood at 2.34x as on March 31, 2023. The unencumbered cash and bank balance as on



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August 30, 2023 is Rs. 63.29 Crore. The cash operating cycle of the company is of 58 days in FY23 (FY22: 65 days).

About the Company

K&R Rail Engineering Limited (Formerly Axis Rail India Ltd.) is one of the leading Professional Turnkey / EPC Contractor executing Railway Siding Projects across India. It is a listed company promoted and managed by professionals with vast experience in disciplines of Rail engineering, transportation planning and project management and execution of complex Railway Projects. The company has diverse presence all over India and can handle complex Railway Projects. The Main Objective of the Company is to render efficient and effective service in the areas of Rail Transportation and Infrastructure Development. K&R Rail Engineering Ltd. is a specialized Railway Project Company executing Railway Projects on Turnkey. K&R Rail Engineering Ltd. have constructed Major Railway Siding Projects to Cement Companies, Steel Industries, Ports, Fertilizers, Power Projects, Mining Industries etc. and can execute complex Railway Projects of more than Rs. 200 Crores.

Financials (Standalone):

For the year ended/As on*	30-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	195.30	308.16
EBITDA	11.53	12.17
PAT	6.06	5.22
Total Debt	13.59	14.73
Tangible Net Worth	54.33	96.72
Ratios		
EBITDA Margin (%)	5.91	3.95
PAT Margin (%)	3.10	1.69
Overall Gearing Ratio (x)	0.25	0.15

*Classification as per infomerics' standards

Status of non-cooperation with previous CRA:

Crisil vide its press release dated June 30, 2023 has continued to classify the ratings of the company under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Not Applicable



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Rating History for last three years:

S r. No.	Name of Instru ment/ Faciliti es	Current Ratings (Year 2023-24)				Rating History for the past 3 years		
		Type	Amou nt outsta nding (INR Crore)	Rating	Date(s) & Rating(s) assigne d in 2021- 2022 (August 01, 23)	Date(s) & Rating(s) assigne d in 2021- 2022 (31st May,20 22)	Date(s) & Rating(s) assigne d in 2020- 2021 (April 01, 2021)	Date(s) & Rating(s) assigne d in 2019-20 (Januar y 03,2020)
1.	Long Term Fund based Facility	Long Term	1.50	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	IVR BB/Neg ative; ISSUER NOT COOPE RATING	IVR BB+; ISSUER NOT COOPE RATING	IVR BBB- /Stable	-
2.	Short Term Facility	Short Term	54.50	IVR A3 (IVR A Three)	IVR BB/Neg ative; ISSUER NOT COOPE RATING	IVR A4+; ISSUER NOT COOPE RATING	IVR A3	IVR A3

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).



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Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Cash Credit	-	-	-	1.50	IVR BBB-/Stable
Short Term Bank Facility – LCs/ BGs	-	-	-	54.50	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-krrail-nov23.pdf>



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Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

