

# TEXMACO RAIL & ENGINEERING

## Bright outlook

India Equity Research | Infrastructure - Railways



Texmaco Rail & Engineering's (Texmaco) Q2FY18 revenue plummeted 49% YoY as GST uncertainty impacted execution in the EPC arm; in addition, lack of wagon orders led to wagon revenue sustaining tepid trend. EBITDA margin fell to 0.1% versus 5.0% in Q2FY17 due to operating de-leverage. Texmaco Group's order book at Q2FY18 end stood at ~INR36bn; the upcoming Indian Railways' (IR) tender for 9,500 wagons and rising opportunities in coaches, locomotives & EPC segments are expected to result in substantial order inflows for the company. We expect order intake to drive stock performance going ahead. Maintain 'BUY' with SOTP-based target price of INR140.

### Tepid order inflow derails wagon business

Texmaco's wagon order book and, consequently, revenues have plummeted over the past 18 months due to absence of sufficient wagon orders. Wagon dispatches at 316 in Q2FY18 fell 50% YoY. Despite a slight revival in private sector ordering, the company's overall wagon order book declined to INR2.1bn due to falling share of IR orders. Texmaco is eyeing the IR tender for 9,500 wagons (expected to be finalised in November) as well as DFC wagon orders expected in FY19 to shore up its order book.

### GST uncertainty takes a toll on EPC division

Rail EPC division's revenue, at INR955mn, declined 26% YoY in Q2FY18 due to disruption in procurement and correspondingly billing on introduction of GST. Its order book stands at a healthy ~INR18.7bn (3.8x TTM revenues). Work on the 2 DFC orders has commenced and we expect this to boost execution going ahead.

### Outlook and valuations: Attractive; maintain 'BUY'

Burgeoning investments in IR ("[Indian Railways - Re-birth of the Colossus](#)") entail bright prospects for Texmaco's primary business lines—wagons, coaches, locomotives and rail EPC. We believe, rising exposure to rail EPC business will materially change the company's risk profile, pruning its dependence on the wagon segment. Moreover, the proposed amalgamation with Bright Power will enable Texmaco to become a 'total rail solution provider'. Our SOTP value for Texmaco works out to INR140, based on P/E of 25x FY19E earnings of Texmaco and Bright Power. We maintain 'BUY' recommendation.

Financials	(INR mn)							
Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17	FY18E	FY19E
Revenues	1,919	3,773	(49.1)	2,275	(15.7)	11,542	9,352	15,963
EBITDA	1	188	(99.4)	(49)	NA	584	241	1,662
Adj. profit	(83)	182	NA	(86)	NA	344	23	1,149
Dilu.EPS (INR)	(0.4)	0.9	NA	(0.4)	NA	1.6	0.1	5.2
Dilu.P/E (x) *						57.8	NA	17.3
EV/EBITDA (x) *						33.0	NA	12.8
ROAE (%)						3.5	0.2	10.4

\* adjusted for Bright Power

EDELWEISS RATINGS	
Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: TEXA.BO, B: TXMRE IN)	
CMP	: INR 99
Target Price	: INR 140
52-week range (INR)	: 118 / 83
Share in issue (mn)	: 219.6
M cap (INR bn/USD mn)	: 22 / 336
Avg. Daily Vol. BSE/NSE ('000)	: 646.3

SHARE HOLDING PATTERN (%)			
	Current	Q1FY18	Q4FY17
Promoters *	52.4	52.4	52.5
MF's, FI's & BKs	17.4	19.2	19.5
FII's	7.7	7.8	7.8
Others	22.5	20.6	20.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)			
	BSE Midcap Index	Stock	Stock over Index
1 month	0.3	(0.5)	(0.8)
3 months	6.4	5.2	(1.2)
12 months	19.1	(9.1)	(28.2)

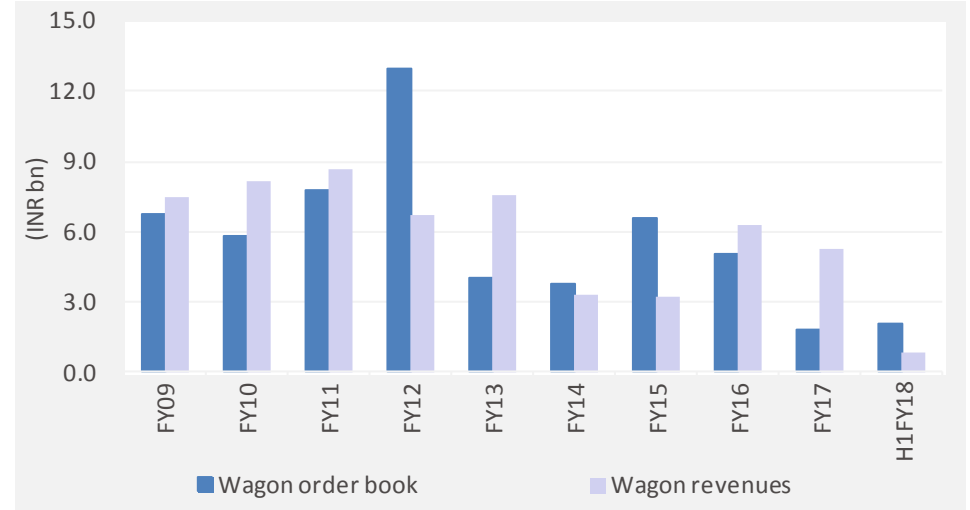
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**Other highlights**

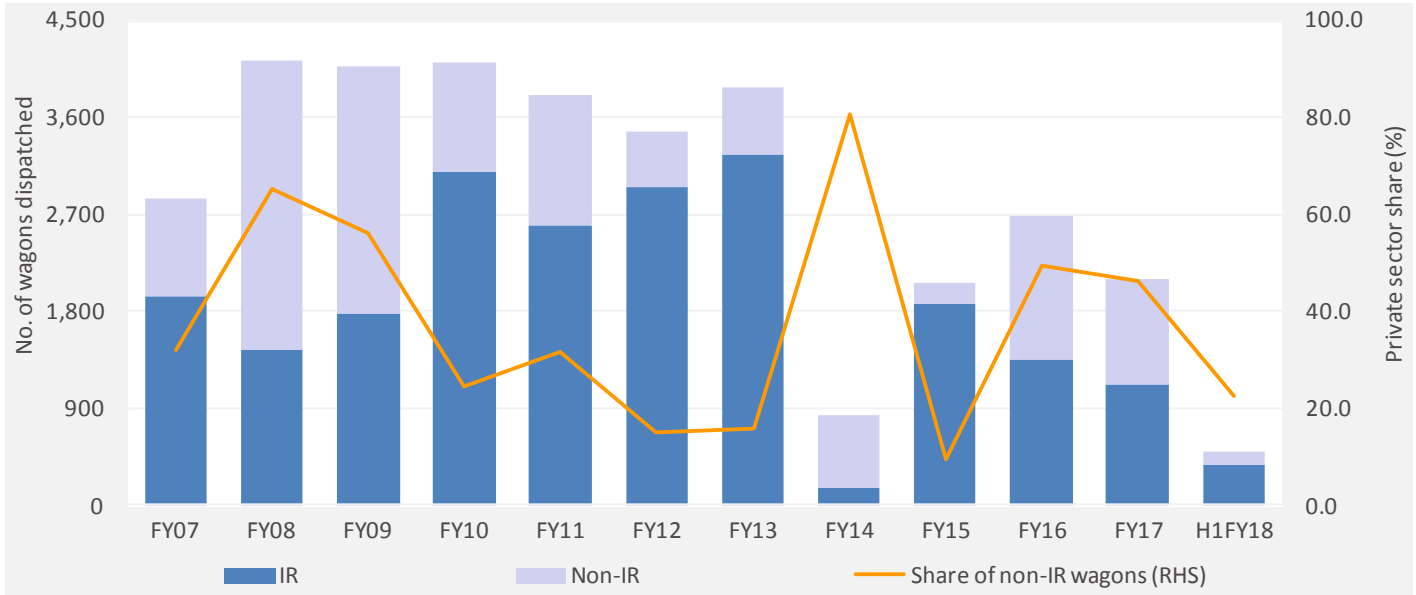
- **Wagon order book** at Q2FY18 end stood at INR2.1bn (with IR wagon share at INR50mn)

**Chart 1: Wagon order book witnessing downturn**



- **Wagon dispatch** – During the quarter, Texmaco dispatched 231 wagons to IR and 85 wagons to the private sector.

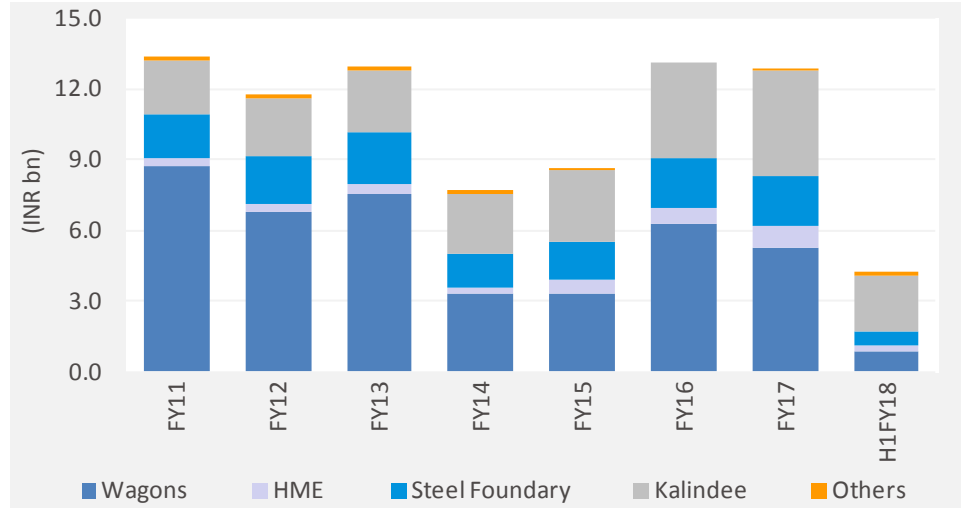
**Chart 2: Wagon dispatch still weak compared to previous years**



Source: Company, Edelweiss research

- Texmaco’s revenues (ex-Kalindee) have been falling due to dearth of wagon orders; consequently, the steel foundry topline has also dipped. Going ahead, the company expects that rail EPC division will boost its revenues.

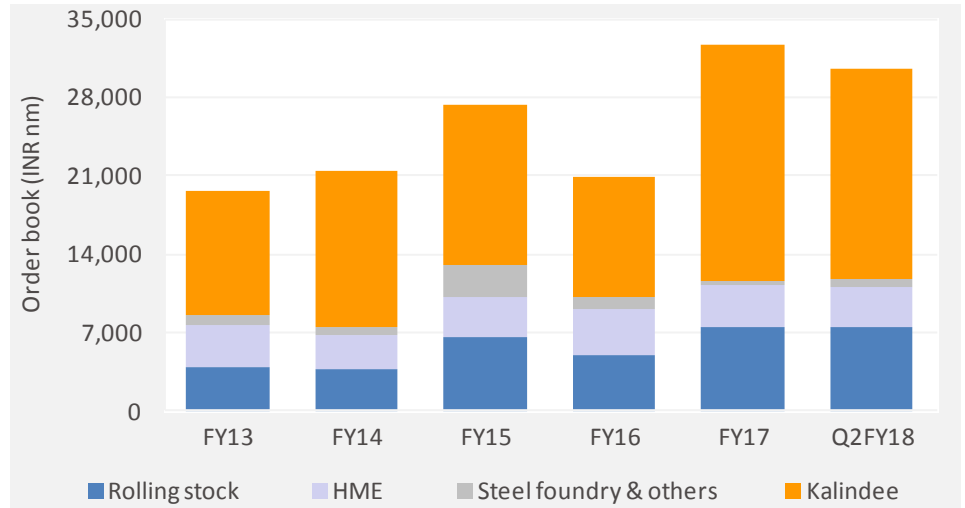
**Chart 3: Wagon slowdown pulls down the standalone business**



Source: Company, Edelweiss research

- **Order book** –At the end of H1FY18, the Texmaco group order book stood at ~INR36bn with Bright Power contributing ~INR5.6bn.

**Chart 4: Rail EPC dominates Texmaco standalone order book**



Source: Company, Edelweiss research

- **Locomotive business:** Incremental push towards electric traction implies significant jump in production of electric locomotives going ahead. Texmaco, which manufactures electric loco shells, will benefit from this.

Texmaco is also likely to benefit from orders for locomotive components to be given by both GE and Alstom (as part of the new loco factories being developed in the country).

- **Coach manufacturing:** Increasing focus on safety means that IR is likely to move away from ICF coaches to LHB coaches. With not enough capacity in the public sector to meet the demand for LHB coach production, some orders are likely to come to the private sector. Texmaco, with established credentials in this space, will benefit from this.

- **Coach refurbishment:** With IR looking to involve private sector in coach refurbishment, experienced players like Texmaco will benefit. The 1<sup>st</sup> tender for coach refurbishment is already underway and the company expects it to get awarded shortly.
- **Track laying:** News reports indicate that IR will spend INR10bn a month over the next six months to replace old and out-of-date tracks with new ones, an exercise aimed at reducing train derailments. Mr. Piyush Goyal, Minister of Railways, has ordered the spend after raising the track renewal target for the current fiscal to 3,600 km, an 80% jump over the average 2,000 km of tracks renewed by IR every fiscal. We believe this will improve growth prospects for the company's rail EPC division.
- **Merger of Bright Power and Texmaco Hi-Tech:** The company's Board of Director have approved the amalgamation of its subsidiaries Bright Power Projects (India) (in which the company currently holds 55% stake) and Texmaco Hi-tech (wholly owned subsidiary) with the company. The share exchange ratio approved is 818:100, i.e., 818 shares of the company shall be issued for every 100 shares held by a shareholder in Bright power. With Texmaco Hi-Tech being a wholly owned subsidiary, no shares need to be issued and the company's investments, being equity shares, in Texmaco Hi-tech will stand cancelled.

Bright Power currently has 13mn shares. Considering the share exchange ratio, Texmaco will need to issue additional 4.78mn shares to the holders of Bright Power. Considering the current equity base of 219mn shares of Texmaco, this will result in ~2.2% dilution for the company.

We believe the additional stake acquisition in Bright Power is positive for the company. Bright Power offers a complete package in design, supply, construction & installation for railway electrification and installation of transformers and substations (mainly for IR). While IR was its main customer traditionally, it has successfully diversified into the metro rail space and recently has received an INR2bn order from Power Grid (PGCIL) as well. Its order book has improved from INR3.6bn at Q1FY18 end to INR5.6bn now. With IR's increasing focus on electrification (['Mission Electrification' gaining traction](#)), prospects for Bright Power are improving.

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	1,919	3,773	(49.1)	2,275	(15.7)	4,194	9,352	15,963
Direct costs	1,604	3,255	(50.7)	2,032	(21.0)	3,636	7,942	12,896
Staff costs	204	203	0.4	191	6.5	395	748	926
Other expenses	110	127	(13.5)	101	8.9	211	421	479
Total expenditure	1,918	3,585	(46.5)	2,324	(17.5)	4,242	9,111	14,301
EBITDA	1	188	(99.4)	(49)	(102.2)	(48)	241	1,662
Depreciation	44	39	13.1	45	(1.1)	89	177	198
EBIT	(43)	149	NA	(93)	NA	(137)	64	1,464
Other income	71	187	(62.3)	104	(32.4)	175	399	532
Interest	119	129	(7.9)	109	9.5	227	435	557
Add: Prior period items								
Add: Exceptional items								
Profit before tax	(91)	207	NA	(98)	NA	(189)	28	1,438
Provision for taxes	(8)	25	NA	(11)	NA	(19)	6	289
Reported profit	(83)	182	NA	(86)	NA	(169)	23	1,149
Adjusted Profit	(83)	182	NA	(86)	NA	(169)	23	1,149
<b>as a % of net revenues</b>								
Direct costs	83.6	86.3		89.3		86.7	84.9	80.8
Other expenses	5.7	3.4		4.4		5.0	4.5	3.0
EBITDA	0.1	5.0		(2.1)		(1.1)	2.6	10.4
Reported profit	(4.3)	4.8		(3.8)		(4.0)	0.2	7.2
Tax rate	9.2	12.1		11.4		10.3	20.1	20.1

### Company Description

Texmaco, incorporated in 1939, started out as a textile machinery manufacturing company. Over the years, it has diversified into the heavy engineering segment which includes wagon manufacturing, hydro mechanical equipment, bridges and structural equipment, steel foundry and process equipment. The company went private in 1998 as 'Texmaco Machines Private Limited' and later in 2010 the company got demerged into 2 entities - Texmaco Infrastructure & Holdings (Texinfra) and Texmaco Rail & Engineering (Texmaco). The company's major segments are i) Manufacture and supply of wagons ii) Hydro mechanical equipment iii) Steel foundry division and bridges and structural equipment.

In FY14, the company acquired ~49% stake in Kalindee Rail Nirman, which is in the business of providing EPC services to railways & metros which has been merged with the company itself. Texmaco has also acquired 55% stake in Bright Power Projects (India), an EPC company, specialising in over head electrification (OHE) solutions for IR.

### Investment Theme

#### Impressive track record in wagon segment

Over the past 6 decades, Texmaco, has cemented its position as the premier wagon maker in India. To counter the slowdown in wagon ordering from IR, the company has prudently utilised its design/engineering capabilities, developed from technical collaboration with renowned MNCs, to win private sector/export orders, which entail production of custom made commodity-specific wagons. This places Texmaco in pole position to benefit from the upcoming rolling stock orders from DFC.

#### Transforming into a total rail solution provider

To insulate itself from rising competition in the wagon segment, Texmaco acquired Kalindee Rail (undertakes turnkey/EPC jobs in rail infra segment) and Bright Power (specialises in electrification solutions). This will enable the company to capture larger pie of the huge investments being done for augmenting the rail network in the country. In addition, its tie ups with global players like Wabtec, etc., have enabled it to widen product portfolio and offer full spectrum of services required in the railway space.

### Key Risks

#### Concentration risk

Currently, wagon segment drives majority of Texmaco's profitability. Ergo, slowdown in wagon ordering from IR has marred the company's turnover. Prolonged slowdown in the wagon space could cast a shadow on its growth plans.

#### Predatory pricing by new entrants

The number of players competing in the wagon industry has increased over the years. With wagon ordering sluggish, increased competition has affected Texmaco's margins. Continuation of the same can keep its operating margins subdued.

#### New growth ventures yet to yield results

Texmaco has adopted the acquisition and tie up mode to improve its product profile and in turn its growth path. But, the company's strategy has still to play out completely. Hence, any requirement of additional capital could strain its balance sheet.

## Financial Statements

### Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
<b>Company</b>				
Order intake (INR bn)	16	14	14	24
Y-o-Y growth (%)	13.3	(12.9)	(4.4)	74.5
Book-to-bill ratio (x)	2.9	2.8	3.9	2.6
Order backlog (INR bn)	31	33	36	42
Order backlog growth (%)	12.4	6.1	11.0	15.5
Revenue growth (% yoy)	145	7	(19)	71
Raw Material (% net rev)	73.4	73.5	76.4	72.2
Employee (% of net rev)	7.2	6.9	8.0	5.8
Job work (as % of sales)	9.7	8.5	8.5	8.5
Other admin (% net rev)	5.0	6.0	4.5	3.0
Avg. Interest rate (%)	21.2	14.4	11.4	11.4
Depreciation rate (%)	4.9	6.3	6.0	5.8
Tax rate (%)	20.3	18.1	20.1	20.1
Dividend per share	0.2	0.2	0.2	0.2
Inc. in invts (INR mn)	(660)	(414)	786	-
Capex (INR mn)	(1,072)	262	423	550
Incremental debt	2,281	(114)	1,150	950

### Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	10,766	11,542	9,352	15,963
Direct costs	8,950	9,468	7,942	12,896
Employee costs	774	800	748	926
Other Expenses	535	689	421	479
Total operating expenses	10,259	10,958	9,111	14,301
EBITDA	508	584	241	1,662
Depreciation	145	162	177	198
EBIT	362	422	64	1,464
Add: Other income	449	473	399	532
Less: Interest Expense	470	475	435	557
Add: Prior period items	-	8	-	-
Profit Before Tax	341	429	28	1,438
Less: Provision for Tax	69	76	6	289
Prior Period(Net of Tax)	-	8	-	-
Reported Profit	272	353	23	1,149
Adjusted Profit	272	344	23	1,149
Shares o /s (mn)	219	219	219	219
Adjusted Basic EPS	1.2	1.6	0.1	5.2
Diluted shares o/s (mn)	219	219	219	219
Adjusted Diluted EPS	1.2	1.6	0.1	5.2
Adjusted Cash EPS	2.1	2.4	0.9	6.1
Dividend per share (DPS)	0.2	0.2	0.2	0.2
Dividend Payout Ratio (%)	23.2	17.9	279.6	5.5

### Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	95.3	94.9	97.4	89.6
EBITDA margins	4.7	5.1	2.6	10.4
Net Profit margins	2.5	3.0	0.2	7.2

### Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	145.5	7.2	(19.0)	70.7
EBITDA	159.8	15.1	(58.7)	588.4
PBT	85.1	25.6	(93.4)	NA
Adjusted Profit	136.4	26.6	(93.5)	NA
EPS	126.4	26.5	(93.5)	NA

## Infrastructure - Railways

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	210	219	219	219	
Reserves & Surplus	8,899	10,233	10,255	11,405	
Shareholders' funds	9,109	10,452	10,475	11,624	
Short term borrowings	1,015	3,218	4,318	5,268	
Long term borrowings	69	23	73	73	
Total Borrowings	1,084	3,241	4,391	5,341	
Long Term Liabilities	97	484	480	485	
Def. Tax Liability (net)	85	(360)	(360)	(360)	
<b>Sources of funds</b>	<b>10,375</b>	<b>13,817</b>	<b>14,986</b>	<b>17,090</b>	
Gross Block	3,652	2,680	3,080	3,630	
Net Block	2,139	2,432	2,655	3,007	
Capital work in progress	39	16	39	39	
Intangible Assets	-	25	25	25	
Total Fixed Assets	2,178	2,474	2,720	3,071	
Non current investments	2,078	1,644	2,469	2,469	
Cash and Equivalents	3,545	3,842	4,719	3,892	
Inventories	2,748	2,270	2,082	3,218	
Sundry Debtors	2,243	4,374	3,569	6,052	
Loans & Advances	1,656	492	399	680	
Other Current Assets	39	2,775	2,828	2,882	
Current Assets (ex cash)	6,688	9,910	8,878	12,833	
Trade payable	2,618	2,445	1,986	3,180	
Other Current Liab	1,495	1,608	1,814	1,996	
Total Current Liab	4,113	4,053	3,800	5,176	
Net Curr Assets-ex cash	2,575	5,857	5,078	7,658	
<b>Uses of funds</b>	<b>10,375</b>	<b>13,817</b>	<b>14,986</b>	<b>17,090</b>	
BVPS (INR)	41.5	47.6	47.7	53.0	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	216	336	23	1,149	
Add: Depreciation	145	162	177	198	
Interest (Net of Tax)	374	391	348	445	
Others	(449)	(433)	(411)	(508)	
Less: Changes in WC	1,002	645	(775)	2,575	
Operating cash flow	(715)	(189)	912	(1,290)	
Less: Capex	184	262	423	550	
<b>Free Cash Flow</b>	<b>(899)</b>	<b>(451)</b>	<b>489</b>	<b>(1,840)</b>	

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	(715)	(189)	912	(1,290)
Investing cash flow	496	143	(1,209)	(550)
Financing cash flow	10	(114)	1,150	950
Net cash Flow	(209)	(160)	853	(890)
Capex	(184)	(262)	(423)	(550)
Dividend paid	(63)	(63)	(63)	(63)

Profitability and efficiency ratios				
Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	3.0	3.5	0.2	10.4
ROACE (%)	8.0	7.5	3.2	12.5
Inventory Days	105	97	100	75
Debtors Days	63	105	155	110
Payable Days	147	157	175	123
Cash Conversion Cycle	21	44	80	62
Current Ratio	2.5	3.4	3.6	3.2
Gross Debt/EBITDA	2.1	5.6	18.2	3.2
Gross Debt/Equity	0.1	0.3	0.4	0.5
Adjusted Debt/Equity	0.1	0.3	0.4	0.5
Net Debt/Equity	(0.3)	(0.1)	-	0.1
Interest Coverage Ratio	0.8	0.9	0.1	2.6

Operating ratios				
Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.0	1.0	0.6	1.0
Fixed Asset Turnover	5.1	5.0	3.6	5.6
Equity Turnover	1.2	1.2	0.9	1.4

Valuation parameters				
Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	1.2	1.6	0.1	5.2
Y-o-Y growth (%)	126.4	26.5	(93.5)	5,000.1
Adjusted Cash EPS (INR)	2.1	2.4	0.9	6.1
Diluted P/E (x) *	73.0	57.8	NA	17.3
P/B (x) *	2.2	1.9	1.9	1.7
EV / Sales (x) *	1.6	1.7	2.1	1.3
EV / EBITDA (x) *	34.3	33.0	NA	12.8
Dividend Yield (%)	0.2	0.2	0.2	0.2

\* adjusted for Bright Power

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Texmaco Rail & Engineering	334	964.4	18.9	88.7	13.9	0.2	10.4
Titagarh Wagons	223	119.4	17.2	17.7	8.0	1.3	7.9
Median	-	541.9	18.1	53.2	11.0	0.8	9.1
AVERAGE	-	541.9	18.1	53.2	11.0	0.8	9.1

Source: Edelweiss research



## Additional Data

### Directors Data

Mr. Saroj Kumar Poddar	Executive Chairman	Mr. Akshay Poddar	Non - Executive and Non Independent Director
Mr. D. H. Kela	Executive Director & CEO (SF)	Mr. Sandeep Fuller	Executive Director & CEO (HED)
Mr. A. K. Vijay	Executive Director & CFO	Mr. A. C. Chakrabortti	Independent Director
Mr. D. R. Kaarthikeyan	Independent Director	Mr. Sunil Mitra	Independent Director
Mr. Sabyasachi Hajara	Independent Director	Ms. Mridula Jhunjunwala	Independent Director
Mr.V K Sharma	Independent Director		

Auditors - K. N. Gutgutia & Co.

*\*as per last annual report*

### Holding – Top 10

	Perc. Holding		Perc. Holding
Reliance Capital Trustee Co Ltd	7.03	HDFC Asset Management Co Ltd	5.44
Jupiter Inv Mgmt Group Ltd	4.95	Duke Commerce Ltd	3.42
Canara Robeco Asset Management	2.06	BNP Paribas	1.82
Parvest Equity India	1.61	L&T Investment Management Ltd	1.44
Life Insurance Corporation of India	1.38	ICICI Prudential Life Insurance	0.62

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Apr 2017	Jyotsna Poddar	Buy	2800000.00
07 Apr 2017	Jyotsna Poddar	Sell	2950000.00
07 Apr 2017	Puja Poddar	Sell	800000.00
07 Apr 2017	Saroj Kumar Poddar (as trustee of Saroj and Jyoti Poddar Holdings Private Trust)	Buy	2950000.00
07 Apr 2017	Saroj Kumar Poddar	Sell	2000000.00

*\*as per last available data*

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## Coverage group(s) of stocks by primary analyst(s): Infrastructure - Railways

Titagarh Wagons, Texmaco Rail & Engineering

### Recent Research

Date	Company	Title	Price (INR)	Recos
28-Sep-17	Railways	'Mission Electrification' gaining traction; <i>Sector Update</i>		
14-Aug-17	Titagarh Wagons	Steady performance; order intake critical; <i>Result Update</i>	109	Buy
10-Aug-17	Railways	Award of first ever EPC contract heralds paradigm shift; <i>Sector Update</i>		

### Distribution of Ratings / Market Cap

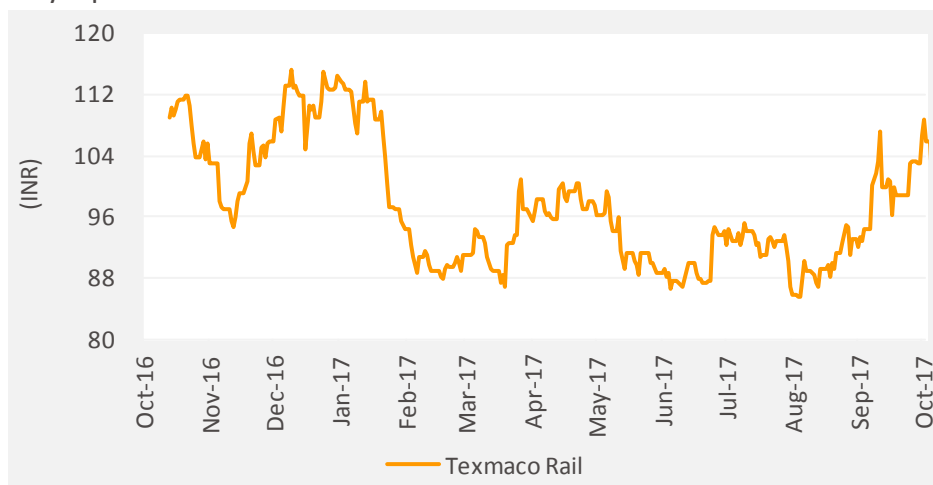
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

### One year price chart



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