



Press Release

K&R Rail Engineering Limited

January 27th, 2025

Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	1.50	IVR BB+/Stable [IVR Double B plus with stable outlook]	IVR BBB-/Stable [IVR Triple B minus with stable outlook]	Rating Downgraded	Simple
Short Term Bank Facilities	54.50	IVR A4+ [IVR A four Plus]	IVR A3 [IVR A Three]	Rating Downgraded	Simple
Total	56.00	[Rupees Fifty-six crore only]			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has downgraded its rating assigned to the bank facilities for the long-term facilities to IVR BB+ with stable outlook and IVR A4+ for the short-term facilities of K&R Rail Engineering Limited (KREL).

The ratings have been downgraded on account of continuous decline in profitability margins along with high customer concentration risk. The ratings continue to take into consideration project execution risk with susceptibility of operating margin to volatile input prices. However, the rating continues to draw comfort from experienced promoters along with steady operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics. Further, the ratings take into consideration healthy order book position providing medium term revenue visibility and proven project execution capability.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes that KREL will benefit from its experienced management and healthy order book position indicating revenue visibility in the medium term.

Infomerics Ratings has principally relied on the standalone audited financial results of KREPL up to 31 March 2024 (refers to period April 1st, 2023, to March 31st, 2024) and projected financials for FY2025 (refers to period April 1st, 2024, to March 31st, 2025) - FY2027 (refers to period April 1st, 2026, to March 31st, 2027), and publicly available information/ clarifications provided by the company's management.



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Key Rating Sensitivities:

Upward Factors

- Successful commissioning and completion of projects resulting in sustained increase in TOI
- Significant increase in profitability; specific credit matrix of EBITDA margin of above 5% on a sustained basis.

Downward Factors

- Sustained deterioration in profitability and elongation in operating cycle
- Decline in financial risk profile with TOL/TNW above 3.5x on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

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 professionals having a vast experience in the railway engineering field as majority of them are the retired senior employees of the Indian Railways.

Steady operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics; albeit high TOL/TNW

The TOI of the company grew significantly by 98.92% in FY24 and stood Rs. 612.23 crore in FY24 compared to Rs. 307.78 crore in FY23 on account of execution of the existing order book. The company's financial risk profile remains comfortable with an overall gearing ratio stood at 0.41x as on March 31, 2024, slightly deteriorated from 0.35x as on March 31, 2023 due to decrease in tangible network of the company as on March 31, 2024 due to security premium reserve, along with part of the reserves and surplus used to redeem 8.16 lakh preference shares at a premium totalling amount Rs. 64.18 crore. TOL/ATNW has deteriorated from 1.05x as on 31-Mar-23 to 3.13x as on 31-Mar-24 due to significant increase in creditors



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from Rs. 24.59 crore as on March 31, 2023, to Rs. 99.64 crore as on March 31, 2024. The interest coverage ratio has remained healthy at 8.15x in FY24. Total Debt to NCA stood at 1.81 years in FY24 as against 3.47 years in FY23 on account of decline in profitability.

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

The company has an order book position of Rs. 2,995.35 crore as on December 01, 2024, 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 the timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Proven project execution capability and reputed clientele

Over the past years, the entity has successfully completed many projects majorly in South Coastal Railway region and ensured timely completion of all its projects. The repeat orders received from its clientele validate its execution capabilities. 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

Continuous decline in profitability margins

The profitability margins of the company remain thin with EBITDA margin at 1.82% declining by ~201 bps as against 3.83% in FY23 and 5.59% in FY22. This decreased mainly due to lower margins earned on executed projects, with the majority of contracts being fixed-price contracts. PAT margin also decreased by ~54 bps i.e., from 1.69% in FY23 to 1.16% in FY24 in line with EBITDA margin. Return on Capital Employed (ROCE) also decreased from 9.67% in FY23 to 8.30% in FY24.



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Customer concentration

The company faces high customer concentration with their top 5 customers accounting for 70.83% of the total sales, their top customer accounting for 48.51% of the total sales in FY24. However repeat orders from customer and their reputed stature provides comfort.

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 for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)



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Liquidity – Adequate

K&R Rail Engineering Ltd.'s liquidity is adequate marked by ~49.00% average utilisation of fund-based working capital limits and ~35.93% average utilisation of non-fund based working capital limits for last 12 months ended November 2024. It expects sufficient cushion in cash accrual against its scheduled debt repayment obligation. The Current Ratio of the company stood at 1.46x as on March 31, 2024. The unencumbered cash and bank balance as on March 31, 2024, is Rs. 1.07 Crore. The cash operating cycle of the company is of 36 days in FY24 (FY23: 79 days).

About the Company

K&R Rail Engineering Limited (Formerly Axis Rail India Ltd.) is turnkey / EPC Contractor executing Railway Siding Projects across India. It is a listed company promoted and managed by personnels with experience in disciplines of rail engineering, transportation planning and project management and execution of complex railway projects.

The operations of the company are overseen by Mr. Amit Bansal (Director & CEO) having an experience of more than two decades in the sector. The company has constructed major railway siding projects for cement companies, steel industries, ports, fertilizers, power projects, mining industries among others.

Financials [Standalone]:

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	307.78	612.23
EBITDA	11.80	11.14
PAT	5.22	7.12
Total Debt	28.86	18.60
Tangible Net Worth	82.59	45.76
EBITDA Margin (%)	3.83	1.82
PAT Margin (%)	1.69	1.16
Overall Gearing Ratio (x)(including quasi-equity)	0.35	0.41
Interest Coverage (x)	7.03	8.15

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Vide press release dated August 29th, 2024; CRISIL Ratings Limited have kept the ratings under non-cooperation category on account of non-submission of relevant information.



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Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years				
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	
				January 27, 2025	November 08, 2023	August 01, 2023	May 31, 2022	April 01, 2021	
1.	Fund Based Limits	Long Term	1.50	IVR BB+/ Stable	IVR BBB-/ Stable	IVR BB/Negative; ISSUER NOT COOPERATING*	IVR BB+; ISSUER NOT COOPERATING*	IVR BBB-/ Stable	
2.	Non-Fund Based	Short Term	54.50	IVR A4+	IVR A3	IVR A4; ISSUER NOT COOPERATING*	IVR A4+; ISSUER NOT COOPERATING*	IVR A3	

**Issuer not cooperating; Based on best available information*

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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).

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



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

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Cash Credit	-	-	-	-	1.50	IVR BB+/Stable
Short Term Facility – Bank Guarantee	-	-	-	-	44.50*	IVR A4+
Short Term Facility – Letter of Credit	-	-	-	-	10.00	IVR A4+

** Bank Guarantee amounting to Rs. 15.50 crore availed from Axis Bank includes sublimit of Rs. 15 crore as Letter of Credit and Bank Guarantee amounting to Rs. 29 crore availed from ICICI Bank includes sublimit of Rs. 5 crore as Letter of Credit*

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-krrail-jan25.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable



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Annexure 4: List of companies considered for consolidated/Combined analysis: 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.

