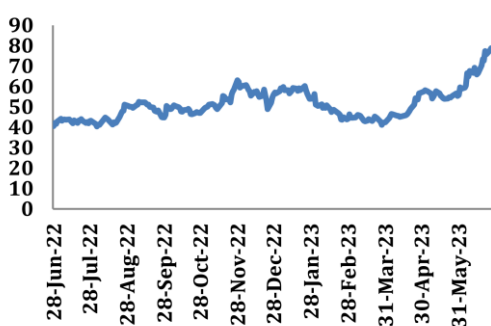


June 30, 2023

TEXMACO RAIL & ENGG LTD.

Industry	Railway Wagons
No. of Shares (Crore)	32.19
Face value (Rs.)	1.00
Mkt. Cap (Rs. Crore)	2503.83
Price (28/06/2023)	77.75
Book Value (Rs)	43.25
P/BV	1.80
BSE Code	533326
NSE Code	TEXRAIL
Bloomberg	TXMRE IN
Reuters	TEXA.BO
Avg. Weekly Volume (NSE)	1,23,29,872
52 W H/L (Rs)	81.50 / 39.80
Shareholding Pattern	%
Promoters	58.70
Institutions	8.88
Non- Institutions	32.42
Total	100.00
(As on March 31, 2023)	
Recommendation	
BUY	

Texmaco Rail & Engg



Company Background

Texmaco Rail & Engineering Ltd (Texrail) is involved in the business of manufacturing of Rolling Stock, such as Wagons, Coaches, EMUs, Loco shells & parts, etc., Hydro Mechanical Equipments, Steel Castings, Rail EPC, Bridges and other steel structures. Over the years, it has entered into technical collaborations with renowned Multinationals of Japan, U.S.A, U.K, Germany, Australia, Austria, Holland, etc. for developing and expanding its product portfolio.

Investment Rationale

➤ Over a period of 8 decades, Texrail's freight car serves a variety of industries ranging from Cement, Steel, Defence, Fertilizer, Oil, Alumina, Thermal Power Projects, Chemical Plants etc due to its technical capability to build Custom-built Special Purpose Freight Cars for movement of large oversize consignments.

➤ Texrail has an order book of 20,000 No. of wagons while the combined order value of all its segments stood at around Rs 9,000 Crs at the end of March 2023. It has started to get orders on the export front from Rail EPC and Railway wagon divisions. The orders are not only from the Government, but also from the private sector as well. In the wagons division, it had executed orders of 3,200 No.s in FY23.

➤ The strategic decision to demerge Kalindee Rail and Bright Power which are in the business of Engineering, Procurement & Construction (EPC) into two wholly owned subsidiaries is expected to result into flow of synergies of the separate divisions leading to better management control.

➤ Indian Railways is expected to issue tenders for 50,000 new design modern wagons soon for which Texrail is expected to emerge winners for a substantial number of those.

➤ Export orders for Texrail also look promising as it's Freight Car Division has successfully executed design & built export orders of 100 wagons to Liberia and is expecting to receive an additional order for 300 wagons valuing at Approx. US\$ 23 Mn. Execution for this order is expected to commence from Q3FY24.

➤ The Government of India (GOI) is expected to speed up the completion of all major infrastructure projects before the general elections scheduled for April-May 2024. GOI's focused approach on completion of freight corridor and upgrading the Rail infrastructure is a positive catalyst for the Rail EPC Division of the Company. This division is presently focusing on booking orders for short tenure contracts and its expeditious execution & contract closure activities and was also successful in winning certain export orders in this segment in FY23.

➤ Texrail has completed the largest spillway radial gates of the 2000 MW Subansiri Lower Hydroelectric Project worth Rs 350 Crs in April 2023 located on the border of Assam and Arunachal Pradesh, thus showcasing its engineering capabilities.

Recommendation

Texmaco Rail has a robust order book of 4x its FY23 revenue and is expected to be benefitted from the incremental demand for wagons both from the Indian Railways as well as private players.. The demerger of its EPC Rail segment is expected to result in flow of synergies with better management control. We would recommend a Buy with a target price of Rs 96 in the next 9-12 months, thus implying a rise of 23% from the current levels.

Particulars (In Rs. Crs)	Q4FY23	Q4FY22	Var%	FY23	FY22	Var%
Net Sales	835.27	446.68	86.99	2,243.28	1,621.74	38.33
PBIDT (Excluding OI)	55.28	28.05	97.08	145.41	140.21	3.71
Net Profit	18.33	5.45	236.36	26.03	20.50	26.98
PBIDTM% (Excluding OI)	6.62	6.28	5.40	6.48	8.65	-25.09
PATM%	1.79	0.94	91.33	0.51	0.75	-32.00
Equity	32.19	32.19	-	32.19	32.19	-
EPS (Rs.)	0.57	0.17	236.36	0.81	0.64	26.98

*Source: Company, Ace Equity, AUM Research

Company Overview

Rolling Stock

- Steel Freight Wagons / Commodity Specific Wagons for bulk transportation
- Transport Special Purpose New Design Freight
- Wagons Bottom Discharge Coal Hopper
- Wagons Container Flat wagons Tank Wagons (SS & MS) Defence Equipment Wagons Auto Car Wagons
- High capacity Parcel vans Brake Vans

Steel Foundry

- High Speed Bogies, H.T. Couplers, Draft Gears, Draw Bars , Tight Lock Couplers and CMS Crossings
- Industrial Castings: Earth Moving Equipment, Hydro Power Projects
- High Axle Load Bogie Castings, Shroud Castings, Center Plate & AAR Yokes & Followers

Hydro Mechanical Equipment & Steel Structures

- Gates in a wide range: Radial /Vertical/Mitre/Torispherical Flap type/ Hinged type Penstocks / Pressure Shaft Liners
- Bifurcation, Trifurcation, Transition, Expansion Joints, Manifolds, Reducers, Dismantling Joints, Fixed & Rocker, Supports and Specials

Traction & Coaching

- Loco-shells
- Loco Bogies
- Coach-bogies & Underframes
- EMU Coaches
- Loco Underframe
- Loco Components
- Passenger Coach Bogie

Bridges & Structural

- Industrial Structure
- Fabrication and erection of Steel Bridges in Railways and Roadways
- Steel/Concrete Flyovers
- Other types of bridges – Concrete and Steel
- Fabrication and erection of Bailey Bridges
- Ship Hull Blocks

Rail EPC

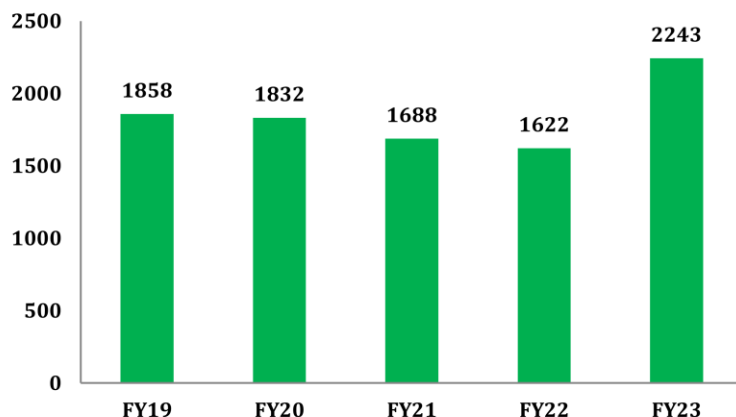
- Design, Supply, Installation & Commissioning
- Main Line Railway Tracks
- Metro Railway Tracks
- Railway Signaling & Railway Telecom
- Buildings, Platforms & Foot Over Bridges
- Bridges & Culvert for Railways
- Automatic Fare Collection
- Railway Overhead &
- Other Electrification Railways Electrification Other Power Supply Installation

Hi-Tech

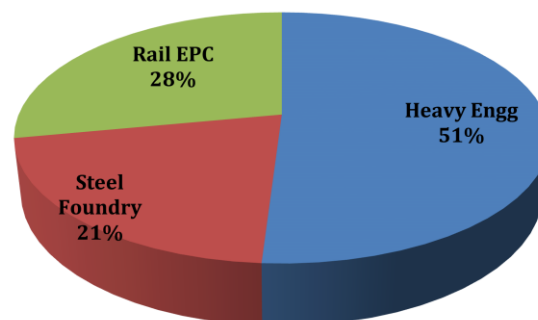
- Supplies of various fabricated – machined – painted parts for Rolling Stock & Material Handling Equipment domain for the JV between Texmaco Rail and UGL, Australia
- Providing hi-tech Freight products and services, and other State-of-the-Art Railway products to the Indian Rail network through the JV of Texmaco Rail and US based Wabtec Corporation

Financial Overview

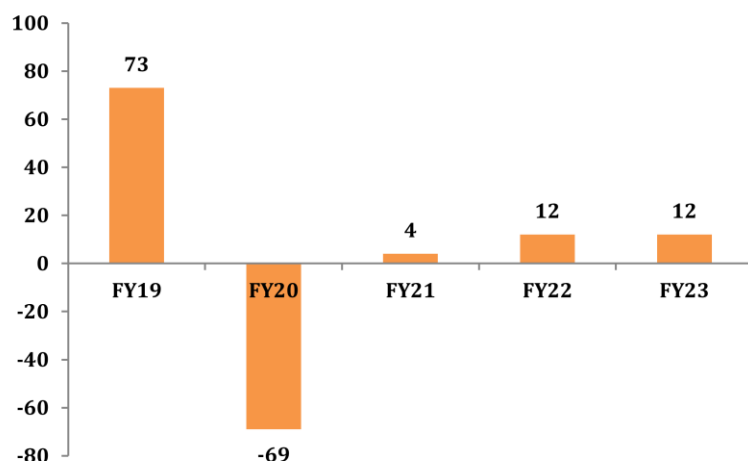
Revenue In INR Crs



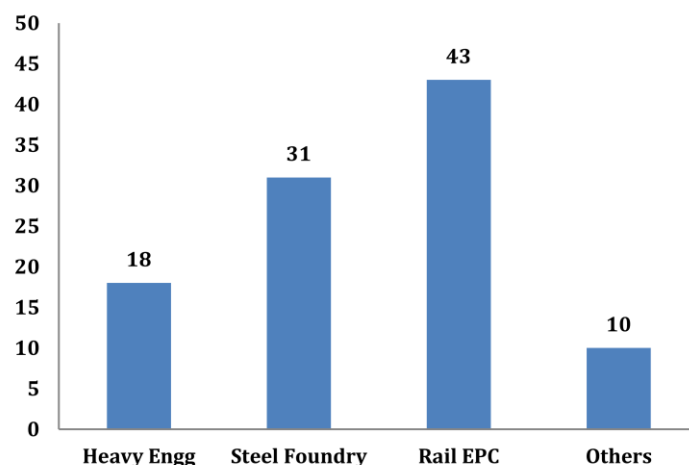
Segmental Break Up FY23



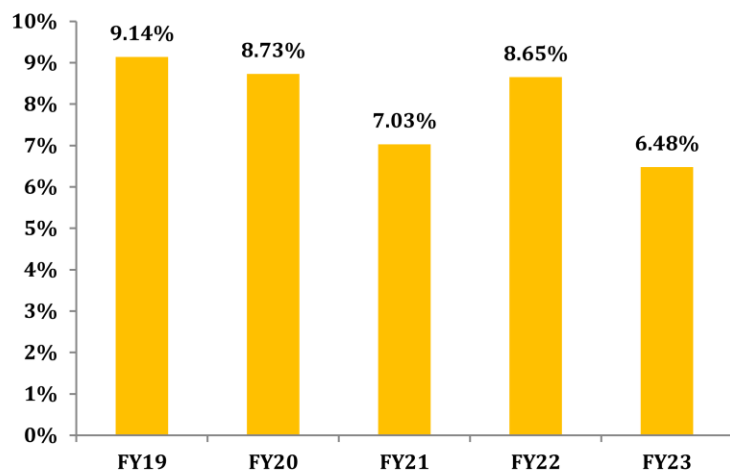
PAT In INR Crs



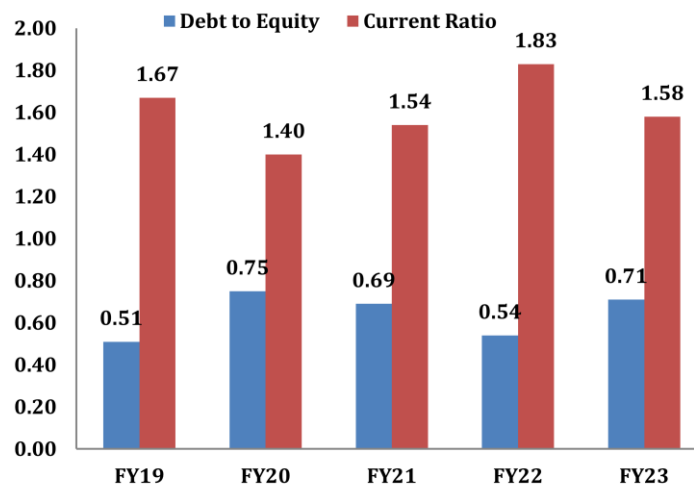
Segmental PBIT In INR Crs



EBIDTA Margins%



Leverage & Liquidity Ratio



*Source: Company, Ace Equity, AUM Research

Rationale For Investment

Incremental demand for wagons from Indian Railways and private players

- **Robust order book in numbers:-** Texrail has an outstanding order book of 20,000 wagons at the end of March 2023.
- **Tender from Indian Railways:-** Texrail is expecting fresh tenders for 50,000 wagons from the Indian Railways where it would conceptualize, design and manufacture the wagons them giving them a better life efficiency and a payload ratio.
- **Only technically sound vendors to bid:-** Only the vendors having the capability to not only manufacture but also design and conceptualize through the right product technology shall be permitted to take part in the bidding process. Texrail is one amongst them.
- **Dedicated freight corridors:-** The commissioning of dedicated freight corridors throughout the country along with a target to increase the share of freight transport through the railways is expected to lead to an incremental demand for wagons from Indian Railways.
- **Private players:-** The country witnessed a huge demand supply mismatch of power supply during the extreme heat weather. The Government of India has instructed the power firms to make their own arrangements for transportation of coal to the plants and not depend on solely on the railways for that purpose. This is expected to lead to an increase in demand from the private players.

Proposed Joint Venture with a foreign company

- **JV with Nymbwag, Czech Republic:-** Texrail is setting up a JV with Czech firm Nymwag for setting up a state of the art freight car manufacturing unit in Sodepur where it has got a 35 acres land. The total investment is around Rs 350 Crs.
- **Demand from corporates and Indian Railways:-** The rail freight car is in strong demand from corporates under the wagon investment scheme apart from the Indian Railways.
- **Gradual ramp up of production:-** The JV initially has laid down plans to manufacture 1,000 to 1,200 wagons per annum which shall be further ramped up to 2,000 wagons as production stabilizes.
- **Leverage the expertise:-** Nymwag is a Czech Republic-based company of the AZC group. The collaboration will allow Texrail to leverage Nymwag's expertise and experience in the European market, which will benefit the Indian manufacturing industry as a whole.

Strategic decision to bifurcate the Rail EPC Business

- **Performance of Rail EPC not very encouraging in the past:-** The Rail EPC business had some legacy orders which Texrail was struggling to complete. However, now most of the long tenure orders with the exception of that in Bangladesh and the Bangalore Metro have been completed.
- **Not booking long tenure contracts:-** Texrail is the market leader in the field of signaling, ballast less track and overhead electrification which are normally of shorter duration from 18 to 30 months. The track laying projects are normally of longer duration of more than 36 months. Various infrastructure bottlenecks come into play at the time of laying down of tracks and hence Texrail has made a conscious decision to cut its exposure to this division.
- **Better synergies and management control:-** The strategic decision to demerge Kalindee Rail and Bright Power which are in the business of Engineering, Procurement & Construction (EPC) into two wholly owned subsidiaries is expected to result into flow of synergies of the separate divisions leading to better management control. Texrail was evaluating its position and business strategy to stay ahead of the competition and rationalizing the business structure is expected to enhance shareholder's value in future.
- **Improvement in realizations:-** The separate units are expected to remain focused on garnering the amount realizable from the defaulting and pending client list which is expected to improve the receivables and ultimately the bottom line.

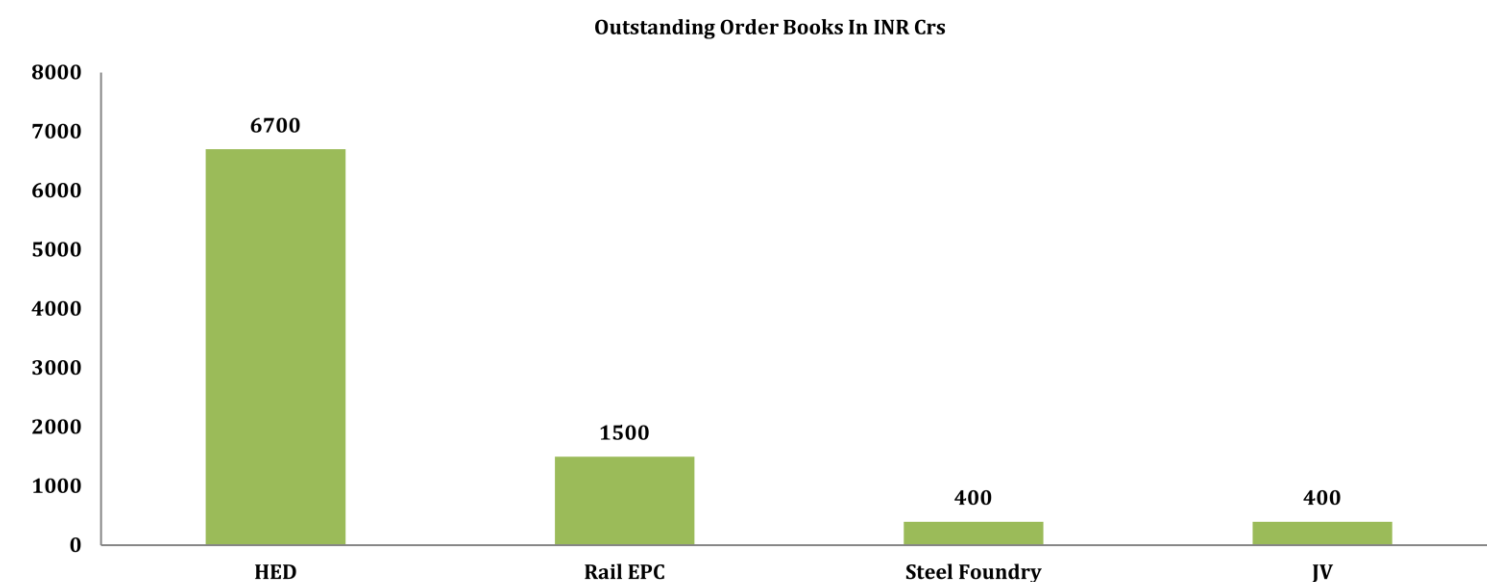
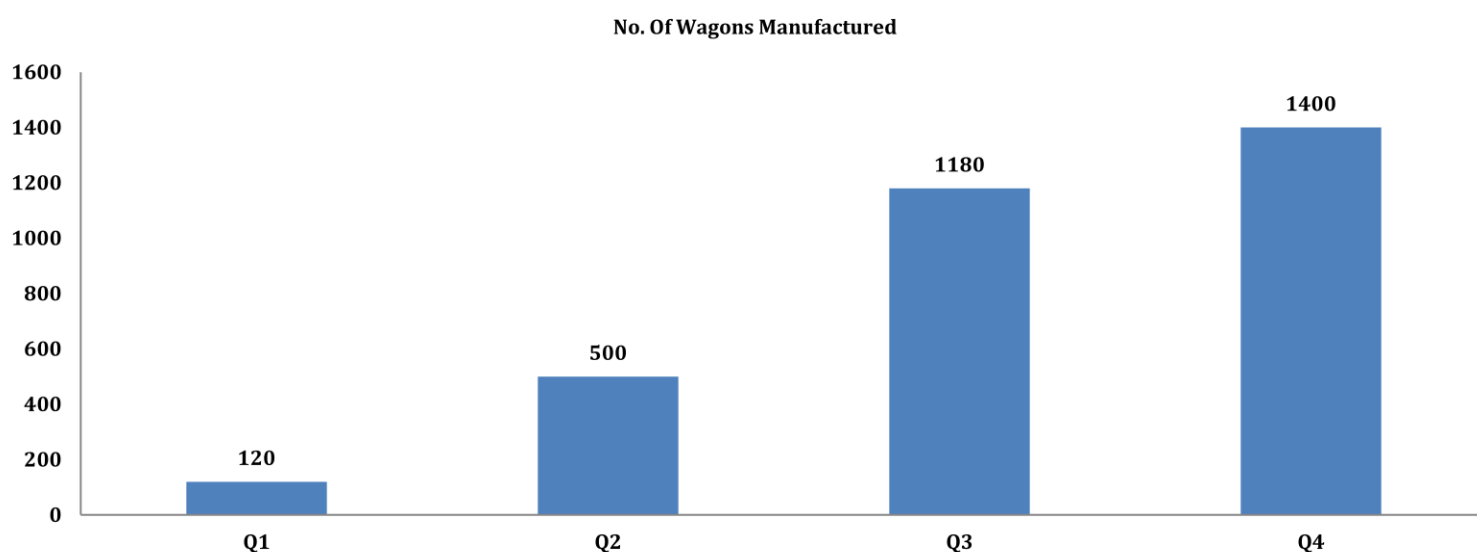
Cost Rationalization measures

- **Decision to manufacture in-house or outsource:-** Around 80% to 84% of the total operating expenses consist of materials cost. Texrail is exploring the opportunity to address what components can be manufactured in-house or what can be outsourced in order to get a better space realization and increase in the volume of production.
- **Increase in production volume:-** The overhead costs remain at a constant proportion and does not vary much irrespective of the volume of wagons manufactured. As the production volumes go up, the margins shall improve accordingly and this is the main area Texrail is focusing on.

- **Focusing on shorter tenure contracts:-** Texrail is focusing more on short term contracts as signaling, ballast less track and overhead electrification which are normally of shorter duration from 18 to 30 months. Longer tenure contracts as track laying is no longer in focus as it intends to complete those pending in the shortest time possible.

Improved performance and projected increase in volume of production:-

- **Q4FY23:-** During the fourth quarter of the previous fiscal year, the company experienced a notable ramp-up in production, registering a remarkable 40% increase. This surge in production has served as a positive indicator of the company's performance and sets the stage for further growth in the coming months.
- **Increase in volume of production:-** Texrail is confident of increasing the volume of production by 30%-35% in FY24 combining all the business divisions. This anticipated growth is a testament to the company's commitment to meeting market demands and capitalizing on emerging opportunities.



HED- Heavy Engineering Division

*Source: Company, Ace Equity, AUM Research

Financials

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q4FY23	Q4FY22	Var%	FY23	FY22	Var%
Net Sales & Other Operating Income	835.27	446.68	86.99	2,243.28	1,621.74	38.33
Total Expenditure	779.99	418.63	86.32	2,097.87	1,481.52	41.60
PBIDT (Excl OI)	55.28	28.05	97.08	145.41	140.21	3.71
Other Income	8.02	7.82	2.65	26.37	22.43	17.57
Operating Profit	63.30	35.87	76.50	171.78	162.65	5.61
Interest	31.45	22.99	36.77	116.18	100.24	15.90
PBDT	31.85	12.87	147.47	55.61	62.40	-10.88
Depreciation	8.89	8.87	0.21	35.20	36.00	-2.22
PBT	22.96	4.00	473.96	20.41	26.40	-22.69
Tax	8.00	-0.18	-	8.88	14.18	-37.38
Net Profit	14.96	4.18	257.77	11.53	12.22	-5.65
Minority Interest	0.05	-0.23	121.05	0.22	-0.03	-
Share of Associates	3.32	1.49	122.10	14.27	8.31	71.72
Consolidated Net Profit	18.33	5.45	236.36	26.03	20.50	26.98
Equity	32.19	32.19	-	32.19	32.19	-
EPS (Rs.)	0.57	0.17	236.36	0.81	0.64	26.98

Consolidated Income Statement (Value in Rs. Crs)			
Particulars	FY22	FY21	FY20
Net sales	1,621.74	1,688.85	1,831.80
Total Expenditure	1,548.92	1,661.72	1,702.40
Operating Profit (Excl OI)	72.81	27.12	129.40
Other Income	89.83	116.64	51.21
Operating Profit	162.65	143.76	180.60
Interest	100.24	102.97	96.59
PBDT	62.40	40.79	84.01
Depreciation	36.00	37.45	36.09
Profit Before Tax and Exceptional Items	26.40	3.34	47.92
Exceptional Items	-	-	-149.92
Profit Before Tax	26.40	3.34	-102.00
Provision for Tax	14.18	-0.27	-32.86
Net Profit	12.22	3.61	-69.14
Minority Interest	-0.03	2.14	0.09
Share of Associates	8.31	8.41	4.22
Consolidated Net Profit	20.50	14.16	-64.83
EPS (Rs.)	0.64	0.51	-2.62

*Source: Company, Ace Equity, AUM Research

Consolidated Balance Sheet (Value in Rs. Crs)			
Particulars	FY22	FY21	FY20
EQUITY AND LIABILITIES			
Share Capital	32.19	25.03	22.49
Share Warrants & Outstandings	11.84	11.84	11.84
Total Reserves	1,286.51	1,104.52	993.00
Shareholder's Funds	1,330.54	1,141.40	1,027.33
Minority Interest	-2.20	-2.23	-0.10
Secured Loans	64.25	52.74	52.70
Unsecured Loans	-	-	-
Deferred Tax Assets / Liabilities	-68.81	-82.17	-82.11
Other Long Term Liabilities	115.24	119.46	178.14
Long Term Provisions	8.55	9.37	8.16
Total Non-Current Liabilities	119.23	99.40	156.89
Trade Payables	311.64	430.17	554.16
Other Current Liabilities	164.91	132.73	201.83
Short Term Borrowings	645.55	726.52	697.11
Short Term Provisions	25.57	31.74	167.22
Total Current Liabilities	1,147.68	1,321.15	1,620.32
Total Liabilities	2,595.24	2,559.71	2,804.45
ASSETS			
Gross Block	537.58	523.61	520.32
Less: Accumulated Depreciation	177.49	147.29	114.42
Net Block	360.09	376.32	405.90
Capital Work in Progress	2.46	3.93	7.35
Assets In Transit	28.94	29.84	30.74
Non Current Investments	76.94	95.86	65.61
Long Term Loans & Advances	7.88	8.69	12.33
Other Non Current Assets	19.50	14.07	14.68
Total Non-Current Assets	495.81	528.70	536.61
Currents Investments	0.17	35.47	35.00
Inventories	361.05	309.30	537.07
Sundry Debtors	569.94	611.49	644.50
Cash and Bank	172.66	105.30	83.61
Other Current Assets	663.09	643.61	593.68
Short Term Loans and Advances	332.52	325.85	373.98
Total Current Assets	2,099.43	2,031.01	2,267.84
Net Current Assets (Including Current Investments)	951.75	709.86	647.52
Total Current Assets Excluding Current Investments	2,099.26	1,995.54	2,232.84
Total Assets	2,595.24	2,559.71	2,804.45

*Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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