

Investment & Precision Castings Limited

July 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	55.19 (Reduced from 62.05)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	7.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	62.19 (₹ Sixty-Two Crore and Nineteen Lakhs Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Investment & Precision Castings Limited (IPCL) continue to derive strength from the vast experience of IPCL's promoters in the investment castings business, its established manufacturing facilities, long standing relation with its key customers along with its moderate capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of its modest scale of operations and moderate profitability along-with concentrated revenue profile in terms of its customer base as well as end-user industry. The ratings also factors in susceptibility of its profitability to volatile raw material prices and close linkages of its demand prospects with the cyclical domestic automobile industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Diversification of its revenue profile resulting in significant reduction in its customer and end-user industry concentration, thereby entailing greater stability to its revenue and profitability
- Significant improvement in its capacity utilization along with TOI more than Rs.180 crore and PBILDT margin above 20% on a sustained basis
- Effective management of its working capital requirements leading to sustaining its operating cycle to less than 120 days leading to improvement in its liquidity
- Improvement in debt coverage indicators while maintaining its moderate capital structure

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations with TOI going below Rs.100 crore along with sustaining of PBILDT margin below 12%
- Major debt funded capex and/or increase in working capital intensity leading to deterioration of its overall gearing to more than 1x on a sustained basis
- Elongation in operating cycle beyond 160 days on a sustained basis impacting its liquidity

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations and established manufacturing set up

IPCL is one of the established manufacturers of investment castings in India with a long track record of operations of more than four decades. Mr. Piyush Tamboli, Chairman & Managing Director, has vast experience in the castings and auto components industry which is evident from the satisfactory operations of IPCL over more than four decades through various economic cycles. IPCL has well established manufacturing facility located in Bhavnagar, Gujarat with total casting capacity of 2,000 MTPA (including 15 MTPA for vacuum castings) as on March 31, 2022. IPCL uses state-of-the-art automated equipment to manufacture variety of castings for automobile, pumps, electrical & instrumentation and other general engineering industries. In FY22, IPCL has installed one machine for process improvement in vacuum casting (and comply with norms specified by defence companies) and CNC machines aggregating Rs.9 crore (approx.).

Established relations with key customers resulting in repeat orders

IPCL has long standing business relations with established players in the automobile industry including Maruti Suzuki (India) Ltd., Mahindra & Mahindra Ltd., Tata Motors Ltd. and Royal Enfield Motors. IPCL caters to substantial portion of the total requirement of most its key automobile clients for the components of engine and transmission system. Due to its long-standing relationship with the customers as an approved vendor for investment castings, IPCL has been able to secure repeat orders from its customers. The company also includes new customers in its customer portfolio to diversify its customer base.

Moderate capital structure and debt coverage indicators

IPCL's capital structure marked by its overall gearing remained stable over the previous year at moderate level of 0.89 times as on March 31, 2022. TOL/TNW of the company also remained stable at moderate level of 1.45 times as on March 31, 2022. Debt

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

coverage indicators of the company remained relatively stable and moderate as marked by interest coverage ratio of 2.07 times and total debt / GCA of 8.53 times for the year ended on March 31, 2022.

Key Rating Weaknesses

Modest scale of operations and moderate profitability which declined during FY22

In spite of having a long-standing presence in the business, scale of operations of IPCL has remained modest marked by TOI of Rs.132.29 crore in FY22 which restricts its financial flexibility to a large extent.

IPCL's operating profitability marked by its PBILDT margin reduced by 218 bps Y-o-Y owing to increase in key raw material prices which IPCL was not able to pass on to its customers in timely manner, though it continued to remain moderate at 10.10% in FY22 [PY: 12.27%].

High customer and end-user industry concentration

IPCL supplies majority of its castings to the automobile industry as reflected from ~80% of its total sales to auto industry during FY22 leading to significant end-user industry concentration risk. Also, IPCL primarily operates in the domestic market which constituted ~78% of total sales during FY22, which makes it vulnerable to slowdown in demand from the cyclical domestic automobile industry. Gradually it is increasing its exports marked by total exports of ~Rs.26 crore in FY22 vis-à-vis ~Rs.8 crore in FY21. Moreover, top five customers of IPCL constituted ~46% of its total sales during FY22, exhibiting moderate customer concentration risk, wherein IPCL has relatively lower bargaining power vis-à-vis its larger size customers.

Exposure to raw material price volatility and high dependence on job work arrangement

Iron scrap, steel scrap and ferro alloys form the key raw material required for manufacturing of castings. IPCL procures majority of its raw material requirement domestically wherein it has established sourcing arrangement with local suppliers. The prices of iron scrap, steel scrap and ferro alloys, being commodity items, are volatile in nature which exposes IPCL's profitability to adverse movement in raw material prices. However, IPCL has an arrangement with most of its major customers wherein sales price is adjusted for fluctuation in raw material prices on yearly basis, which reduces risk associated with volatility in raw material prices to a certain extent.

During FY22, out of total cost of sales of IPCL, nearly 28% comprises of stores cost and job work charges which reflects very high dependence of IPCL on job work arrangement exposing it to disruption in its operations in case of any problems with its arrangements.

Exposure to cyclical automobile industry

The automobile industry is inherently vulnerable to the economic cycles and is sensitive to the interest rates and fuel prices. IPCL, being in automobile ancillary industry, faces significant risks associated with the dynamics of the automobile industry. Sales volume across segments were pushed by multiple years led by transition from BS-4 to BS-6 and covid-19 induced nationwide, though FY22 witnessed a turnaround in the industry as its wholesale as well as retail volumes started gaining momentum, owing to the pent-up demand. Just as the industry was on the path of recovery, it faced new impediment in the form of high fuel prices and price hikes by automobile OEMs.

Liquidity: Adequate

IPCL's liquidity position remained adequate marked by moderate unencumbered cash and bank balance and CFO as against moderate long-term debt repayment obligations.

The unencumbered cash and bank balance remained at Rs.1.80 crore as on March 31, 2022 [PY: Rs.1.32 crore] while CFO remained at Rs.13.98 crore in FY22. Company is expected GCA of Rs.10-12 crore which are tightly matched with gross loan repayment of ~Rs.8-9 crore in near term. The current ratio of the company remained low and near unity as on March 31, 2022. Average utilization of its fund-based working capital facilities remained at ~88% in trailing 12 months ended in April, 2022. Company is using working capital limit of Rs.36 crore and Rs.3.60 crore of SME gold card limits. IPCL's operating cycle improved on the back of decreased inventory period, though continued to remain elongated at 112 days.

In FY22, IPCL has also availed additional working capital term loan under Covid-19 relief measure to the tune of Rs.6.11 crore which is expected to provide additional cash flow cushion in medium term.

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Incorporated in April 1975, IPCL (CIN: L27100GJ1975PLC002692) was promoted by Late Mr I. F. Tamboli. IPCL is primarily engaged in the manufacturing of investment castings which are largely used in the automobile industry. IPCL is an original equipment manufacturer (OEM) for some of the leading domestic automobile manufacturers. During FY18, IPCL also commenced manufacturing of vacuum castings which find application across industries like aerospace, defense and medical

implants. IPCL had an installed capacity of 2,000 metric tonnes per annum (MTPA) for manufacturing of investment & vacuum castings as on March 31, 2022 at its plant located at Bhavnagar, Gujarat.

Brief Financials (in Rs. crore)	FY20 (A)	FY21 (A)	FY22 (Ab)
Total operating income	95.27	104.74	132.29
PBILDT	11.56	12.86	13.36
PAT	(0.67)	0.48	0.18
Overall gearing (times)	0.81	0.91	0.89
PBILDT Interest coverage (times)	1.77	2.16	2.07

A: Audited; Ab.: Abridged

Status of non-cooperation with previous CRA: CRISIL suspended its ratings vide press release dated September 18, 2014 on account of non-cooperation by IPCL with CRISIL's efforts to undertake a review of the outstanding ratings.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	November, 2026	15.59	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	39.60	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	7.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	15.59	CARE BBB-; Stable	-	1)CARE BBB-; Stable (24-Jun-21)	1)CARE BB+; Positive (10-Feb-21) 2)CARE BB+; Stable (07-Sep-20)	1)CARE BBB-; Negative (27-Jan-20) 2)CARE BBB; Negative (21-Aug-19) 3)CARE BBB; Stable (01-Apr-19)
2	Fund-based - LT-Cash Credit	LT	39.60	CARE BBB-; Stable	-	1)CARE BBB-; Stable (24-Jun-21)	1)CARE BB+; Positive (10-Feb-21) 2)CARE BB+; Stable (07-Sep-20)	1)CARE BBB-; Negative (27-Jan-20) 2)CARE BBB; Negative (21-Aug-19) 3)CARE BBB; Stable (01-Apr-19)
3	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3	-	1)CARE A3 (24-Jun-21)	1)CARE A4+ (10-Feb-21) 2)CARE A4+ (07-Sep-20)	1)CARE A3 (27-Jan-20) 2)CARE A3+ (21-Aug-19) 3)CARE A3+ (01-Apr-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities: None

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:

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