

Magna Electro Castings Limited

January 04, 2021

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	10.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	16.25	CARE A2 (A Two)	Reaffirmed
Total Facilities	26.25 (Rs. Twenty six crore and twenty five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Magna Electro Castings Limited (MECL) continue to derive strength from the vast experience of the promoters, long operational track record of more than two decades in casting business, well-established manufacturing facilities. The ratings also factor in the comfortable profit margins and healthy capital structure and debt coverage indicators.

The ratings are, however, constrained by modest scale of operations with relatively lower capacity utilization, exposure of margins to volatile raw material prices & foreign exchange risk and intensely competitive & fragmented nature of industry.

Rating Sensitivities

Positive Factors

- Consistent improvement in the scale of operations through diversified client base
- Sustainable improvement in the operating margins above 20%

Negative Factors

- Any large-sized debt-funded capex leading to deterioration in capital structure with overall gearing levels greater than 0.80x

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter

MECL was promoted in 1990 by Mr N. Krishna Samaraj, an Engineer and Management graduate by qualification. He has more than two decades of experience in the casting industry. He is the ex-president of "The Institute of Indian Foundry men" and currently takes care of the overall management of the company. He is assisted by a well-qualified and experienced team of professionals to take care of the day-to-day operations of the company.

Long and successful operational track record of over two decades catering to both domestic and export markets

MECL has a long track record of presence for over two decades in the industry. MECL caters to different industrial requirements including auto, valves, transmission, locomotives, etc, and each of these contributes around 10%-12% of its total income.

The company has a long-standing presence in ductile iron casting segment. The company caters to both domestic and export market with export sales contributing to about 45% of the revenue in FY20 (refers to the period April 1 to March 31; PY: 50%).

Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration. The company's manufacturing facility, spread over 10 acres of land has in-house facilities such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. Some part of the machining is also carried out by its sister concern 'Samrajyaa and Company' located near MECL's unit.

Healthy capital structure

MECL stood debt free with minimal utilisation of its working capital limits through the year in FY20. In FY20, the company has back 350,096 fully paid up equity shares resulting in an outflow of Rs.7.00 crore. Consequent to the buy back the, the shareholding percentage of the promoters effectively increased from 48.45% to 52.46%

Key Rating weakness***Moderate scale of operations with relatively lower capacity utilization***

The casting industry has many large players with higher capacities and large scale of integrated operations which keeps the scale of operations of MECL modest. The operating income of the company witnessed a moderation in FY20 from Rs.125.41 crore in FY19 to Rs.98.44 crore in FY20 on the back of the lower export orders as well as slow-down in the domestic economy resulting in the decline in the orders. MECL has been operating at moderate capacity utilization levels for the past four years at 60-70% during the past four years ended FY20.

Profit margins exposed to volatility in raw material prices

The primary raw materials used for the ductile iron casting include steel scrap and ferro alloys, whose prices are inherently volatile and driven largely by global as well as local demand and supply conditions. Hence any volatility in the prices of these materials may impact the profitability of MECL. The prices of steel scrap have shot up by almost 20-25% in H2FY21 leading to a pressure on the company's margins. Furthermore, with about 50% of the income from export markets, the company's realizations are also exposed to risk on foreign exchange rates.

Highly competitive nature of industry

The demand for castings industry is driven primarily by growth in infrastructure, industrial growth and the need for energy-efficient solutions. The automobile & pumps segments account for a major market for castings which are cyclical in nature. Low entry barriers and a price sensitive end user have led to unorganized sector capturing some share in the market. With outbreak of COVID-19 pandemic, economic activities across the country remained disrupted since March 2020 due to lockdown. On account of continuing lockdown and continuation of several restrictions on movement of people, recovery across sectors is expected to remain slow and gradual as COVID-19 crisis continues to evolve. This is expected to impact the prospects of the growth across all sectors in the current year. However, MECL's clients' distribution among different sectors such as locomotives, automobile, power transmission, Infrastructure has allowed the company to counter the risk against the slowdown in a single sector.

COVID-19 Impact

The company had shut down its operations from March 26, 2020 and the whole of April 2020 owing to the nationwide lockdown imposed due to COVID19. The operations had commenced partially from May 06, 2020 with a maximum of two shifts as permitted by the authorities, with 50% of the local workforce. As such, the company has lost an entire month of sales in Q1FY21. However, the company's operations had resumed gradually in line with the unlock guidelines issued by the government and the migrant laborers returning to work by August 2020. With adequate liquidity in hand, the firm has not opted for the deferment of debt obligations/moratorium as a part of Covid-19 relief measure.

Liquidity- Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis nil repayment obligations and moderate cash balance of Rs.14.11 Crore as on March 31, 2020. Its capex requirements are modular and are expected to be funded wholly from internal accrual for which it has sufficient liquidity. Its liquidity position continues to remain comfortable with almost nil working capital utilization of for the 12 months ended November 2020. With adequate liquidity in hand, the firm has not opted for the deferment of debt obligations/moratorium

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and credit watch to Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for Manufacturing Companies](#)

[CARE's methodology for Auto Ancillary Companies](#)

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

About the Company

MECL is a public limited company incorporated in the year 1990 by Mr N. Krishna Samaraj who has more than two decades of business experience. MECL is engaged in the business of manufacturing & supplying ductile and grey iron castings in the weight range of 300 gram to maximum of 2000 kilogram. As on March 31, 2020, the unit had an installed capacity of 12000 MT. MECL also produces fully-machined components utilizing its in-house CNC machine shop and other facilities as well. MECL caters to

various end-user industries like auto, locomotives, valve, windmills, transmission, etc. The company has wind mills with aggregate capacity of 4 MW for captive consumption purposes.

(Rs. Crore)

Brief Financials	FY19 (A)	FY20 (A)
Total operating income	125.41	98.44
PBILDT	20.26	12.94
PAT	11.40	6.67
Overall gearing (times)	0.00	0.00
Interest coverage (times)	70.53	112.54

A – Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Fund-based - ST-FBN / FBP	-	-	-	10.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	6.25	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Feb-20)	1)CARE BBB+; Stable (06-Dec-18)	1)CARE BBB+; Stable (23-Oct-17)
2.	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (03-Feb-20)	1)CARE A2 (06-Dec-18)	1)CARE A2 (23-Oct-17)
3.	Fund-based - LT-Term Loan	LT	0.84	CARE BBB+; Stable	-	-	-	1)CARE BBB+; Stable (23-Oct-17)
4.	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	-	1)CARE A2 (03-Feb-20)	1)CARE A2 (06-Dec-18)	1)CARE A2 (23-Oct-17)

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

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

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

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.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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