Steelcast Limited

July 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term/ Short Term Bank Facilities	90.90	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Revised from CARE BBB+; Negative/ CARE A2 (Triple B Plus; Outlook: Negative/ A Two)**
Total Facilities	**90.90 (Rupees Ninety Crore and Ninety Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Steelcast Limited (SCL) continue to derive strength from vast experience of its promoters in the steel casting business and their demonstrated track record of need-based fund infusion to support its business, its established manufacturing setup along with reputed clientele in both domestic and export markets, its comfortable operating profitability, improvement in its capital structure and debt coverage indicators during FY21 (FY refers to the period from April 01 to March 31) along-with its adequate liquidity.

The ratings are, however, constrained by further decline in its scale of operations during FY21, high degree of volatility associated with its operations and profitability on account of its concentrated revenue profile marked by high dependence on earth moving equipment industry & customer concentration, susceptibility of its profitability to volatility associated with raw material prices & foreign exchange rates and its presence in a competitive & cyclical industry.

Rating Sensitivities Going Forward

Positive factors

- 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 and Total Operating Income (TOI) along with PBILDT margin above 20% on a sustained basis
- Effective management of its working capital requirements leading to contraction in operating cycle to less than 80 days on a sustained basis

Negative Factors

- Decline in scale of operations with TOI going below Rs.150 crore along with PBILDT margin below 15% on a sustained basis resulting in adverse impact on its debt coverage indicators
- Major debt funded capex leading to deterioration of overall gearing to more than 0.75x on a sustained basis
- Operating cycle beyond 120 days on a sustained basis along with adverse impact on its liquidity

Outlook: Stable

The outlook on the long-term rating of SCL has been revised from 'Negative' to 'Stable' on the back of faster than anticipated recovery in demand from its key end-user industries during H2FY21 resulting in improved profitability, debt coverage indicators and its liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established player in the castings industry for more than five decades

SCL is one of the established manufacturers of steel & alloy steel castings in India with a long track record of operations of more than five decades in castings industry and established marketing arrangements in domestic as well as international markets. The promoters of the company i.e. Tamboli family of Bhavnagar has vast experience in the casting business which is evident from the satisfactory operations of SCL over more than five decades through various economic cycles. The promoters have infused need-based funds to support the operations of the company during business downturns. Mr. Chetan Tamboli, Chairman & Managing Director, looks after the overall management of the company.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Established operations with ability to manufacture wide range of castings
SCL's manufacturing facility is located at Bhavnagar (Gujarat) with total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2021. The company uses 'no bake', 'no bake automated fast loop' and 'shell moulding' casting processes for manufacturing carbon steel, low/high alloy steel, Hadfield manganese steel and other superior grades of wear and abrasion resistant steel castings mainly catering to the requirement of earthmoving equipment manufacturers, mining/mineral processing equipment manufacturers, general engineering manufacturers and other end user industries such as railways, thermal power, oil exploration, shipping, cement and steel plants.

Catering to reputed clientele in both domestic and international markets
SCL sells its castings in both international and domestic markets wherein exports contributed 47% of its total sales in FY21. SCL's customers comprise of some of the reputed and large sized players in the mining & earth moving equipment manufacturing industry. Due to its long-standing relationship with its customers as an approved vendor for various parts, SCL has been able to secure repeat orders from its customers; albeit its sales have remained susceptible to slowdown in demand encountered from these end-user industries.

Improvement in capital structure and debt coverage indicators along-with comfortable operating profitability
SCL's overall gearing improved to 0.18 times as on March 31, 2021 (0.39 times as on March 31, 2020) with decline in debt level due to repayment of term loans and reduction in working capital bank borrowings aided by healthy generation of cash flow from operations. Debt coverage indicators also improved marked by TD/GCA of 0.96x as on March 31, 2021 (1.73x as on March 31, 2020) and TD/PBILDT of 0.71x as on March 31, 2021 (1.20x as on March 31, 2020). Interest coverage also remained comfortable at 8.55x in FY21.
With tight control over its cost structure along-with price variation clause with its customers to pass on raw material price variations, operating profitability of SCL remained comfortable marked by PBILDT margin of 20.48% during FY21 in-spite of decline in its TOI by 21% over FY20.

Liquidity: Adequate
SCL's adequate liquidity is marked by almost nil utilization of its fund based working capital limits in the trailing 12 months ended April 2021 and comfortable current ratio of 1.90x as on March 31, 2021. SCL annual cash accruals are expected to be sufficient vis-à-vis its term debt principal repayment obligation for FY22. With an overall gearing of 0.18 times as on March 31, 2021, it has sufficient gearing headroom to raise additional debt although capex requirement is limited in the medium term. SCL's liquidity was further supported by realization of loans given by it for non-core operations earlier.

Key Rating Weaknesses
Continued decline in total operating income (TOI)
After ~37% decline in its TOI during FY20, SCL's TOI declined further by 21% y-o-y to Rs.158.74 crore on account of decline in off-take from key customers primarily mining equipment manufacturers amidst covid pandemic. However, SCL's PBILDT margin remained healthy at 20.48% in FY21 (18.89% in FY20) aided by cost rationalization measures undertaken by the company.
Significant revenue concentration towards earth moving equipment industry which exhibits high degree of cyclicality along with customer concentration risk thereby resulting high degree of volatility in its operating performance
SCL continues to have high dependence on earthmoving equipment industry which in turn derives demand from the cyclical mining and infrastructure/construction sectors with 91% of its total sales in FY21 contributed by these end-user sectors. Also, SCL continues to have a high customer concentration risk as its top 5 customers contributed 78% to its total sales in FY21. In the past, on account of high customer & industry concentration, SCL's performance had been adversely impacted due to downturn in end-user industry demand and its lower bargaining power vis-à-vis its larger customers. During the period of downturn, SCL's working capital cycle had also elongated significantly reflecting its lower bargaining power with its customers.

Susceptibility of profitability to volatility in raw material prices & foreign exchange rates
Steel scrap and ferro alloys form the key raw materials required for manufacturing of castings. The prices of steel scrap and ferro alloys, being commodity items, are volatile in nature which exposes SCL's profitability to adverse movement in raw material prices. However, SCL has price variation clauses in the orders from its major customers wherein company can pass on significant raw material price fluctuations to its customers, which mitigates risk associated with volatility in raw material prices to certain extent. SCL is also exposed to foreign exchange rates fluctuation risk to a certain extent, as the net exposure (exports less imports) is only partially hedged.

Analytical Approach: Standalone
Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Rating Methodology - Manufacturing Companies
Rating Methodology - Steel Industry
Financial Ratios – Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Steelcast Limited (SCL) was initially established by the Tamboli family of Bhavnagar, Gujarat as a partnership firm in 1960. Subsequently, it was converted into a private limited company in 1972 and later into a public limited company in 1994. SCL is engaged in the manufacturing of castings of various components mainly for the earth-moving equipment manufacturers. SCL had total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2021 at its unit located at Bhavnagar, Gujarat.

Brief Financials (Rs. crore)	FY20 (A)	# FY21 (A)
Total operating income	200.92	158.74
PBILDT	37.96	32.51
PAT	7.98	12.02
Overall gearing (times)	0.39	0.18
Interest coverage (times)	7.56	8.55

A-Audited; #: Abridged audited financials published on stock exchange

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 facility: Not Applicable

Complexity level of various instruments rated for this company: Please refer Annexure 3

Annexure-1: Details of 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/ ST-EPC/PSC	-	-	-	74.65	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC	-	-	-	16.25	CARE BBB+; Stable / 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Jul-19)	1)CARE BBB; Stable (25-Jul-18)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	74.65	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)	1)CARE BBB; Stable / CARE A3+ (25-Jul-18)
3.	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	-	1)Withdrawn (30-Jul-19)	1)CARE A3+ (25-Jul-18)
4.	Fund-based - ST-Others	ST	-	-	-	-	1)Withdrawn (30-Jul-19)	1)CARE A3+ (25-Jul-18)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	16.25	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)	1)CARE BBB; Stable / CARE A3+ (25-Jul-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-EPC/PSC	Simple
2.	Non-fund-based - LT/ 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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