Steelcast Limited

August 05, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	90.90	CARE BBB+; Positive / CARE A2 (Triple B Plus; Outlook: Positive / A Two)	Reaffirmed; Outlook revised from Stable
Total Facilities	90.90 (Rs. Ninety Crore and Ninety Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Steelcast Limited (SCL) continue to derive strength from vast experience of its promoters in the steel casting business, its established manufacturing setup along and its reputed clientele in both domestic and export markets. The ratings continue to factor its healthy profitability, comfortable capital structure and debt coverage indicators and adequate liquidity.

The ratings are, however, constrained by its moderate scale of operation which grew significantly in FY22 (FY refers to the period from April 1 to March 31), high degree of volatility associated with its operations on account of its concentrated revenue profile and customer concentration, susceptibility of its profitability to volatility associated with raw material prices and its presence in a competitive and cyclical 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 and total operating income (TOI) along with profit before interest, lease, depreciation and tax (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 - Factors that could lead to negative rating action/downgrade:

- 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: Positive

The outlook on the long-term rating of SCL has been revised from 'Stable' to 'Positive' due to expectation of growth in its scale of operations during FY23 while maintaining its healthy profitability. The outlook may be revised to 'Stable' in case of lower than envisaged growth in its scale of operations and profitability.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established player in the castings industry for more than six 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 six decades with 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 the years 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.

Established operations with ability to manufacture wide range of castings and reputed clientele

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, 2022. 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 earth-moving 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. It possesses the capability to produce more than

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

300 parts used in various industries. In FY22, it developed 60 new parts which contributed around 16.50% to net sales in FY22. Furthermore, it intends to develop 100 more parts in the next three years, thereby widening its product portfolio. In FY22, company had incurred capex of Rs.29 crore mainly towards additions of machines for process enhancement. Furthermore, it has planned to undertake capex of Rs.45 crore during FY23 includes capex of Rs.22-23 crore for 5 MW solar power plant and balance capex for the product development/process improvement. It also plans to invest Rs.4-5 crore in SPV (Special purpose Vehicle) for hybrid renewable project.
SCL has presence in both domestic as well as export market wherein exports contributed 56%% of its total sales in FY22 (FY21: 47%). SCL's customers comprise some of the reputed and large-sized players having global presence in the mining & earth-moving equipment manufacturing industry. With its long-standing relationship with its customers as an preferred vendor for various parts, SCL has been able to secure repeat orders from its customers. It has orderbook of around Rs.140 crore in July 2022.

Healthy profitability, comfortable capital structure and debt coverage indicators
SCL continued to have healthy profitability marked by PBILDT margin of 21.17% during FY22 which improved as compared with 19.97% during FY21. Profitability of SCL improved by 119 bps during FY22 on the back of better product mix as well as better absorption of the fixed cost due to increase in the capacity utilization. Profit after tax (PAT) margin too improved from 7.62% during FY21 to 11.02% during FY22 in line with the growth at PBILDT level. Overall gross cash accruals (GCA) grew by 105% from Rs.24.01 crore during FY21 to Rs.49.33 crore during FY22. However, it remained in line with pre-covid levels.
Capital structure of SCL remained comfortable with overall gearing of 0.44x as on March 31, 2022 as compared with 0.18x as on March 31, 2021. Total debt of SCL increased from Rs.23.11 crore as on March 31, 2021 to Rs.67.87 crore as on March 31, 2022 on the back of increase in the working capital borrowing to support its growing operations leading to moderation on the overall gearing. However, company had prepaid its term debt repayment obligations in FY22. Total outside liability to tangible net-worth (TOL/TNW) remained comfortable at 0.72x as on March 31, 2022.
Overall debt coverage indicators remained comfortable marked by PBILDT interest coverage and total debt to gross cash accruals (TDGCA) of 36.04x and 1.38x during FY22 as compared with 8.28x and 0.96x during FY21. Going forward, with no major debt funded capex planned, SCL's capital structure is expected to remain comfortable.

Key Rating Weaknesses
Moderate scale of operation which grew significantly in FY22
TOI of SCL grew significantly by around 91% from Rs.157.73 crore during FY21 to Rs.302.04 crore during FY22 on the back of strong sales volume growth of 68% along with improvement in the average sales realization. Despite growth in scale of operation, it continued to have moderate scale of operation and FY22 turnover remained in line with pre-Covid level. Overall capacity utilization increased from 25% during FY21 to 44% during FY22 on the back of strong demand from the end customers resulting in growth in sales volume. Going forward, with moderate order book on hand and expectation of new orders inflow shall result in strong growth in scale of operation during FY23.

Concentrated revenue stream with customer concentration resulting in high degree of volatility in its operating performance
SCL continues to have high dependence on the earth-moving equipment industry which in turn derives demand from the cyclical mining and infrastructure/construction sectors with share of 94% in its total sales in FY22 (FY21: 91%). Also, SCL continues to have a customer concentration risk as its top three customer group (includes 17 companies located in various countries) contributing 91% to its total sales in FY22 (FY21: 78%). The same has resulted in the fluctuation scale of operation and adverse impact on its scale of operation in past. However, as articulated by the management, company is diversifying its product offering and has entered a long- term supply agreement to supply steel castings for a North American railroad OEM. The steel casting covered in this agreement are currently under development stage. Fructification of the same will lead to broadening of the sectoral and customer profile of the company which is a key rating monitorable.

Susceptibility of profitability to volatility in raw material prices albeit presence of price escalation mitigates the same to an extent
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 customers wherein the company passes on any movement in the raw material as well as fuel prices fluctuations to its customers on quarterly basis, which mitigates risk associated with volatility in raw material prices to certain extent. Also, due to its exports, which was 56% of its net sales during FY22, it is exposed to unfavourable movement in forex rates. SCL has forex hedging policy in place according to which it undertakes forward cover as per market scenario. Over the last three years it had earned forex gain being a net exporter.

Liquidity: Adequate
SCL's liquidity remained adequate with no term debt repayment obligation, moderate liquidity ratios and moderate utilization around 76% of its fund based working capital facilities for trailing 12 months ended June 2022. However, cash flow from operation declined from Rs.30.88 crore as on March 31, 2021 to Rs.0.46 crore as on March 31, 2022 on the back of increasing working capital requirement on the back of growth in the scale of operation and capex undertaken by the company from internal accruals. SCL is expected to achieve strong GCA during FY23 which is sufficient to cater its capex requirement during FY23. Furthermore, SCL had pre-paid part of its term debt obligation during FY22 resulting in nil term debt outstanding as on

March 31, 2022. Current ratio and quick ratio remained moderate at 1.33x and 0.78x respectively as on March 31, 2022 as compared with 1.57x and 1.08x respectively as on March 31, 2021.
Overall, SCL has working capital intensive operation with high gross current asset of 179 days during FY22 as compared with 189 days during FY21. Overall operating cycle though shortened remained elongated at 107 days during FY22 as compared with 130 days during FY21.

Analytical Approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel

About the company

SCL (CIN: L27310GJ1972PLC002033) was established as a partnership firm in 1960 by the Tamboli family based out of Bhavnagar, Gujarat. Subsequently, it was converted into a private limited company in 1972 and public limited company in 1994. SCL is engaged in the manufacturing of castings of various components mainly for the earth-moving equipment manufacturers through sand casting process. It had total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2022 at its unit located at Bhavnagar, Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (Prov.)
Total operating income	157.73	302.04	NA
PBILDT	31.50	63.93	NA
PAT	12.02	33.27	NA
Overall gearing (times)	0.18	0.44	NA
Interest coverage (times)	8.28	36.04	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

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

Annexure-1: Details of instruments/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/ ST-EPC/PSC	-	-	-	-	74.65	CARE BBB+; Positive / CARE A2
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	16.25	CARE BBB+; Positive / CARE A2

Annexure-2: Rating history for the 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/ ST-EPC/PSC	LT/ST*	74.65	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Jul-21)	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	16.25	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Jul-21)	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I	**SCL to maintain following:**

Covenant	Threshold
Total outside liability to tangible net-worth	<1.50x
Current Ratio	>=1.33
Term debt / Net cash accruals	<2x
Net fixed asset / Term debt	>=2x
Tangible net-worth	>Rs.112.00 Crore

Name of the Instrument	Detailed explanation
B. Non-financial covenants	
	-

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-EPC/PSC	Simple
2	Non-fund-based - LT/ 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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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