Castex Technologies Limited

December 20, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	50.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Total Bank Facilities	**50.00 (₹ Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Castex Technologies Limited (CTL) derive strength from the resourceful investor with substantial financial support, experienced management team, and a reputed client base. The ratings also factor in improvement in operational performance of CTL after change in management in January 2022 and expectations of further improvement with an anticipation that the company shall gradually regain a part of its lost market share, on the back of sound management team put in place and promoter's financial support. The rating strengths are, however, tempered by limited track record post change in management, high customer concentration, depleting net-worth attributable to expectations of net losses in medium term, raw material price fluctuation and the company's exposure to cyclical automobile industry.

Rating sensitivities:

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

- Sustainable turnaround in operations with company turning positive at the net level
- Significant and sustainable improvement in capital structure and liquidity position

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

- Slower than expected turnaround in operational performance
- Lower than envisaged or delay in the need based financial support from the promoters
- Any increase in external/institutional debt levels beyond envisaged levels of Rs.50 crore

Detailed description of the key rating drivers

Key rating strengths

Resourceful investor with substantial financial support: CTL has been acquired by Hudson Bay a 100% subsidiary of Deccan Value Investors (DVI) under the Insolvency proceedings. Promoted by Mr Vinit Bodas in November 2004, DVI is a USA based hedge fund which manages funds aggregating USD 3 billion across the USA, France, Italy, India and Vietnam. DVI USA holds 90% stake in CTL and has infused funds of Rs.268 crore through NCDs which shall be redeemed in FY29. Going forward, need based financial support is expected to come from the promoters for the capex needs of the company and other business requirements.

Experienced management: CTL is led by Mr Romesh Kaul, MD of the company. He has a vast experience of 39 years in capital goods and automotive industries and has worked with Mahindra & Mahindra and Whirlpool India. Further, the other members of board of CTL comprises of eminent industry experts and professionals. CARE believes that the sound management team put in place after the change in control is expected to help the company regain some of the lost market share and ramp up the operations.

Reputed clientele; albeit, customer concentration: CTL had an established and long-standing relationship with its clients over the years. However, the same was impacted as CTL entered Corporate Insolvency Resolution Process (CIRP). Sales from top 10 customers remain concentrated at around 50% in FY22; which, however, is mitigated to some extent as the same is spread across various models of respective company. Going forward, the company's ability to regain business and grow sales volumes from key customers would remain a key monitorable.

Expectation of gradual improvement in operational performance: Due to declining trend of sales post induction of CTL under CIRP, the PBILDT margins of the company also witnessed a decline and stood at (-) 6.68% in FY22 [PY: (-) 3.66%]. In

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

H1FY23, the company achieved a TOI of Rs. 216 crore with the PBILDT margin improving to 2.33%. Going forward, the TOI of the company is expected to increase during the FY23-FY25 period backed by expectations that CTL shall gain back part its lost market share with the OEMs. With the growth in TOI, the PBILDT margin is also expected to improve progressively going forward.

Liquidity: Adequate

The free Cash & Bank Balance as on March 31, 2022, stands at Rs 23 Crores and Rs 1.98 crores as on November 30, 2022. The company does not have any long-term debt repayment obligation till FY29 as the NCDs are from the promoter with a tenor of 7 years, which provide cushion till the time sufficient cash accruals are built. The company has been sanctioned working capital limits of Rs 50 crores (with fund-based and non-fund-based limits as the sub-limits). The liquidity profile of the company is also supported by the expected need based financial support from DVI. Further, the routine and modernization capex are expected to be funded through the internal accruals and funds provided by the promoter. Moreover, CARE believes that coupon on NCDs is likely to be deferred by the subscribers till the time sufficient accruals are generated by the company.

Key rating weaknesses

Limited track record post recent change in management: As DVI took over CTL in January 2022, there is a short track record post change in the promoters. Hence, the ability of the new management to turnaround operational performance of the company on a sustained basis remains to be seen. However, the company has shown an improved operating performance during H1FY23 with a total income of Rs.215.46 crore and operating profit of Rs.5.01 crore albeit it reported net losses.

Expectations of net losses in medium term: With de-growth in sales, declining profitability margin, impairment / diminution in the carrying value of all of its assets post CIRP, the net worth of the company got eroded significantly. Post implementation of the resolution plan, the net worth base of the company stood at Rs. 43.40 crore as on March 31, 2022 as against negative net worth base of Rs.1901.90 crore as on March 31, 2021.
CTL has weak leverage profile with overall gearing of 6.15x as on March 31, 2022. With expected net losses during FY23-FY25 due to higher depreciation charge and accrued interest, the net worth base is expected to decline and consequently, gearing is expected to deteriorate. Moreover, majority of the debt pertains to NCDs issued to promoters with longer maturity profile which lends some comfort. The debt coverage indicators are also expected to remain modest going forward, though improve gradually.

Exposure to cyclicality in demand in automobile industry: Automotive industry is subject to cyclical variations in performance and is very sensitive to various policy changes. CTL's performance remains closely aligned to the performance of key customers and in-turn exposed to cyclical demand patterns inherent to the automobile industry and ability of the OEMs to sustain their operating performance. Demand for vehicles in the Indian market is subject to seasonal variations. Demand is generally lean during the first quarter of the financial year and starts increasing with the onset of the festive season from September onwards. Typically, the fourth quarter is the best quarter for automobile companies. Seasonality in most other markets is driven by the introduction of new model year vehicles and derivatives.

Raw material price fluctuation risk

The profitability margins of the company remain exposed to the volatility in raw material prices and other input costs including fuel and freight costs, in line with the industry it operates in. Scrap is the major raw material for the company which is procured from traders based out of India. For the procurement of the raw material the company also uses its sanctioned LC limits. The ability of the company to protect its margins from the fluctuations in raw material prices and other input costs, either through price negotiations with customers, or through realisation of operational efficiencies, would remain critical, given the current inflationary environment.

Industry growth prospects

Domestic automobile sales volume in H1FY23 witnessed a 18.5% growth. Passenger Vehicle (PV) and Commercial Vehicle (CV) segment grew by ~29% and ~15% on y-o-y basis respectively during October 2022. The domestic segment sales volumes grew by 7% y-o-y in October 2022, on account of continued healthy demand, new model launches and semi-conductor chip shortage issues easing off. Exports in October 2022 declined by 19% and 3.3% on y-o-y and m-o-m basis respectively.
The exports are expected to decline by 22-25% in FY23 on account of geopolitical tensions, globally high inflation and interest rate environment, and high energy prices in key markets of the US and Europe.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Policy On Curing Period
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Policy on Withdrawal of Ratings

About the company

CTL is engaged in manufacturing of various machined and casting components range from engine, transmission, flywheel, stem comp steering, crown wheel pinions, forks etc. The company caters to OEMs in diverse segments including passenger vehicles, commercial vehicles, tractors, two-wheelers and three-wheelers. The company has manufacturing facilities across Bhiwadi, Palwal, Nalagarh and Gurgaon. It went into CIRP vide order dated December 20, 2017 passed by the Hon'ble National Company Law Tribunal (NCLT), Chandigarh Bench. The CIRP culminated into the approval of resolution plan submitted by DVI USA by the NCLT vide Order dated July 09, 2020. Subsequently, the resolution plan was implemented on January 21, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(UA)
Total operating income	293.13	347.51	215.46
PBILDT	-10.73	-23.23	5.01
PAT	-551.45	-4,532.71	-26.38
Overall gearing (times)	NM	6.15	16.92
Interest coverage (times)	-ve	-ve	0.44

A: Audited UA: Un Audited; NA: Not available; NM: Not meaningful

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing		-	-	-	50.00	CARE BBB-; Stable / CARE A3

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-Bill Discounting/ Bills Purchasing	LT/ST*	50.00	CARE BBB-; Stable / CARE A3				

*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	**NA**
B. Non-financial covenants	**NA**

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	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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About us:
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