

Investment & Precision Castings Limited

June 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	67.47 (Enhanced from 55.19)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	7.00	CARE A3	Reaffirmed

Details of facilities in Annexure -1

Rationale and 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 moderate scale of operations and profitability though improved during FY23 (FY refers to the period from April 1 to March 31) with increased demand from end user industry. The ratings also factor in concentrated revenue profile in terms of its customer base as well as end-user industry, susceptibility of its profitability to volatile raw material prices and close linkages of its demand prospects with the cyclical domestic automobile industry.

Key Rating Sensitivities: Factors likely to lead to rating actions

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 along with TOI more than Rs.180 crore and PBILDT margin above 13% on a sustained basis
- Improvement in debt coverage indicators while maintaining its moderate capital structure

Negative Factors

- Decline in scale of operations with TOI going below Rs.100 crore along with PBILDT margin below 10% on a sustained basis
- 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

Analytical Approach: Standalone

Outlook: Stable

The outlook on the long-term rating of IPCL is "Stable" considering the benefits derived from established presence of the company in the industry along with growing demand of automobiles in domestic market that would enable the company to sustain its operational performance over the medium term.

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 3,000 MTPA (including 15 MTPA for vacuum castings) as on March 31, 2023. IPCL uses state-of-the-art automated equipment to manufacture variety of castings for automobile, pumps, defence, aerospace, electrical & instrumentation and other general engineering industries.

In FY23, IPCL has installed CNC machines and addition in building with total capex out go of Rs.6.43 crore. IPCL is further expected to incur ~Rs.8 crore in FY24 towards manufacturing facility upgradation including addition of some machines and a furnace. The said FY23-FY24 expenditure is proposed to be funded through term loans of Rs.7.50 crore (already sanctioned and Rs.1.74 crore disbursed till March 31, 2023) and balance through internal accruals.

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

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. (CARE AAA; Stable / CARE A1+), Tata Motors Ltd. (CARE AA-; Stable / CARE A1+) and Royal Enfield Motors. 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 had also added new customers in its customer portfolio to diversify its customer base in Defense and Aerospace segments.

Moderate capital structure and debt coverage indicators

IPCL's capital structure marked by its overall gearing remained relatively stable over the previous year at moderate level of 0.83 times as on March 31, 2023. Tangible net worth base of the company augmented on the back of accretion of profits into reserves, though continued to remain moderate at Rs.78.10 crore as on March 31, 2023. Going forward, CARE ratings expected overall gearing to remain below unity with incremental capex to the tune of Rs.7-Rs.10 in medium term.

Debt coverage indicators of the company improved over the previous year on the back of improved profitability and continued to remain moderate as marked by interest coverage ratio of 3.13 times and total debt / GCA of 4.68 times for the year ended on March 31, 2023.

Key Rating Weaknesses***Moderate scale of operations and profitability which improved during FY23***

During FY23, IPCL's TOI increased by ~29% Y-o-Y on account of increased sales realization and increased demand from end user industry and continued to remain moderate at Rs.170.27 crore.

IPCL's PBILDT margin improved by 272 bps Y-o-Y to 12.82% in FY23 as against 10.10% in FY22 but were in line with FY21 with pass on of increased raw material cost to its customers with a lag. With increase in operating margin coupled with decrease in proportionate interest and depreciation expense as against increased TOI, PAT margin of the company increased by 313 bps Y-o-Y and remained at 3.27% in FY23.

High customer and end-user industry concentration

IPCL supplies majority of its castings to the automobile industry as reflected from ~73% [PY: ~78%] of its total sales to auto industry during FY23 leading to end-user industry concentration risk. Also, IPCL primarily operates in the domestic market which constituted ~90% of total sales during FY23, which makes it vulnerable to slowdown in demand from the cyclical domestic automobile industry. Exports sales decreased from ~Rs.26 crore in FY22 to ~Rs.16 crore in FY23. Moreover, top five customers of IPCL constituted ~48% [FY22: ~45%] of its TOI during FY23, exhibiting customer concentration risk, wherein IPCL has relatively lower bargaining power vis-à-vis its larger size customers.

Exposure to raw material price volatility and 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 FY23, out of total cost of sales of IPCL, nearly 29% comprises of 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, though FY23 witnessed a turnaround in the industry with improved economic sentiments. Just as the industry was on the path of growth, 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 thin at Rs.1.28 crore as on March 31, 2023 [PY: Rs.1.80 crore] while CFO remained relatively stable at Rs.12.46 crore [PY: Rs.11.73 crore]. Company is expected GCA of Rs.15-22 crore which are adequate as against gross loan repayment of ~Rs.6-9 crore in near term and incremental capex. The current ratio of the company remained low and near unity as on March 31, 2023 which was in line with

March 31, 2022. Average utilization of its fund-based working capital facilities remained at ~88% p.a. in trailing 12 months ended in April, 2023 which is in line with the previous year. IPCL's operating cycle improved on the back of improved collection period, though continued to remain elongated at 98 days [PY: 112 days].

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](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

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 3,000 metric tonnes per annum (MTPA) for manufacturing of investment & vacuum castings as on March 31, 2023 at its plant located at Bhavnagar, Gujarat.

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	FY23 (Pb)
Total operating income	104.74	132.29	170.27
PBILDIT	12.86	13.36	21.83
PAT	0.48	0.18	5.56
Overall gearing (times)	0.91	0.89	0.83
Interest coverage (times)	2.16	2.07	3.13

A: Audited; Pb: Published results along with schedules; Note: 'the above results are latest financial results available'

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

Lender details: Annexure-5

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-Cash Credit	-	-	-	-	50.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	30/04/2030	17.47	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	7.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	17.47	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jul-22)	1)CARE BBB-; Stable (24-Jun-21)	1)CARE BB+; Positive (10-Feb-21) 2)CARE BB+; Stable (07-Sep-20)
2	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Jul-22)	1)CARE BBB-; Stable (24-Jun-21)	1)CARE BB+; Positive (10-Feb-21) 2)CARE BB+; Stable (07-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3	-	1)CARE A3 (04-Jul-22)	1)CARE A3 (24-Jun-21)	1)CARE A4+ (10-Feb-21) 2)CARE A4+ (07-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on complexity levels of the rated instruments: CARE Ratings Limited 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 us:

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