Steel Cast Limited

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	140.90 (Enhanced from 90.90)	CARE A-; Stable / CARE A2+	Reaffirmed

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Steel Cast Limited (SCL) continue to derive strength from its growing scale of operations and healthy profitability, comfortable solvency position as well as debt coverage indicators and adequate liquidity. The ratings also take cognisance of vast experience of SCL's promoters in the casting business, its established manufacturing setup, and reputed albeit concentrated clientele in both domestic and export markets.

The ratings are, however, constrained by volatility associated with its operations due to concentrated revenue profile, susceptibility of its profitability to volatility associated with raw material prices and foreign exchange rates as well as its presence in a competitive and cyclical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-backed growth with total operating income (TOI) exceeding ₹600 crore and profit before interest, lease, depreciation and tax (PBILDT) margin above 20% on a sustained basis.
- Diversification of its revenue profile resulting in significant reduction in its end-user industry concentration, thereby achieving greater stability to its revenue and profitability.

Negative factors

- Decline in the scale of operations with TOI going below ₹300 crore along with PBILDT margin below 15% on a sustained basis.
- Major debt-funded capex leading to deterioration of overall gearing to more than 0.60x and deterioration in total debt to gross cash accruals (GCA) of more than 2x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that the entity will continue to benefit from its established presence in the steel and steel alloy casting industry coupled with long-term relationship with reputed clientele which shall enable the company to sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and strong presence in the castings industry for more than six decades

SCL is one of the established manufacturers of steel and alloy steel castings in India with a long track record of operations of more than six decades and has an established marketing arrangement in domestic as well as international markets. The promoters of the company, i.e., the 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. Chetan Tamboli, Chairman & Managing Director, looks after the overall management of the company and the operations are supported by experienced professionals.

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 tonnes per annum (MTPA) as on March 31, 2023. 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

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

as railways, thermal power, oil exploration, shipping, cement and steel plants. It possesses the capability to produce more than 300 parts used in various industries. Furthermore, SCL intends to develop 100 more parts in the next few years, thereby widening its portfolio.

Reputed albeit concentrated clientele

SCL's customers comprise some of the reputed and large-sized players in the mining and earth-moving equipment manufacturing industry. With its long-standing relationship with its customers as a preferred vendor for various parts, SCL has been able to secure repeat orders from its customers.

While SCL continued to have high customer concentration risk with top three customer groups accounting for around 75-88% of its net sales in past, the same is mitigated to a large extent by supply of product to more than 17 companies under these three groups across various geographies with each having its approval process in place. SCL supplies to key players (original equipment manufacturers [OEMs]) in mining and earth-moving industry and adding new customers/developing new parts to diversify its customer base.

Growing scale of operations with healthy profitability

SCL's TOI grew significantly by around 58% Y-o-Y from ₹302.04 crore in FY22 to ₹476.83 crore in FY23 on the back of strong sales volume growth of around 31% y-o-y along with improvement in sales realisation despite challenges amidst global inflationary scenario. Export sales also registered healthy growth of 77% Y-o-Y in FY23 over FY22. In line with this, capacity utilisation increased from 44% in FY22 to 51% in FY23. Furthermore, as on September 05, 2023, SCL had an outstanding order book of around ₹90 crore, to be executed in two months.

SCL continued to have healthy profitability as marked by profit before interest, lease, depreciation and tax (PBILDT) margin and profit after tax (PAT) margin of 23.99% [282 bps Y-o-Y increase] and 14.79% [377 bps Y-o-Y increase], respectively, in FY23. The improvement was owing to better product mix as well as better absorption of the fixed cost with increase in capacity utilisation. Going forward, CARE Ratings expects the PBILDT margins to remain healthy with benefit derived from recently concluded renewable power project coupled with process improvement and de-bottlenecking initiatives taken by SCL from time to time.

In Q1FY24, SCL reported sustained performance with stable TOI of ₹119.78 crore [around 3% Y-o-Y growth]. The PBILDT margin and PAT margin, however, improved significantly by 619 bps and 473 bps Y-o-Y, respectively, to 27.21% and 16.93% with power cost savings post completion of capex and operational efficiency. Going forward, CARE Ratings expects TOI to moderate in near term owing to overall demand slowdown from export market and moderation in realisation with decline in the input prices.

Comfortable capital structure and debt coverage indicators

The capital structure of SCL remained comfortable marked by overall gearing of 0.17x as on March 31, 2023, with decrease in working capital borrowings and augmentation of tangible net worth (TNW) with healthy accretion of profits to reserve. The total outside liabilities (TOL)/TNW also remained comfortable at 0.39x as on March 31, 2023 [PY: 0.72x]. Going forward, with no major debt-funded capex planned, CARE Ratings expects SCL to maintain its comfortable capital structure.

On the back of improvement in profitability, debt coverage indicators improved and remained comfortable marked by PBILDT interest coverage ratio of 40.62x [PY: 36.04x] and total debt to gross cash accruals (TDGCA) of 0.42x [PY: 1.38x] in FY23.

Key weaknesses

Concentrated revenue stream with industry concentration resulting in volatility in performance

SCL continues to have high dependence on the mining and earth-moving equipment industry (~77% of TOI derived from these segments in FY23), which in turn derives demand from the cyclical mining and infrastructure/construction sectors. This has resulted in volatility in the scale of operations over the years with impact on SCL's scale of operations during times of decline in demand from these industries. However, this is mitigated to some extent by its long-term association with key customers who are major players in these industries. Furthermore, as articulated by the management, the company is diversifying its product offering and has entered into a long-term supply agreement to supply steel castings for a North American railroad OEM. CARE Ratings also notes that SCL is diversifying into new segments, such as railways, electro locomotives and ground engineering tools.

Susceptibility of profitability to volatility in raw material prices and 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 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 the risk associated with volatility in the raw material prices to certain extent. Also, exports formed around 61% of SCL's net sales in FY23 (FY22: 56%), exposing the company to adverse movement in forex rates. SCL has a natural hedge by way of imports; however, the same is a very small portion compared to its exports. Absence of any active hedging policy makes SCL's profitability susceptible to any adverse forex movement. During FY23, SCL reported forex gain of ₹7.03 crore.

Liquidity: Adequate

The liquidity position of SCL remained adequate marked by healthy cash flow from operations (CFO), no long-term debt repayment obligations and moderate utilisation of working capital limits.

SCL reported net cash accruals (NCA) of ₹77 crore in FY23 and does not have any long-term debt with scheduled repayment. Going forward, SCL is expected to generate healthy cash accruals which shall more than sufficiently cover its incremental capex requirement. The average working capital utilisation remained moderate at around 48% during past 12 months ended August 2023. The CFO of the company increased significantly from ₹0.46 crore in FY22 to ₹110.33 crore in FY23 on the back of higher profit coupled with better working capital management. Unencumbered cash and bank balance remained low at ₹0.25 crore [PY: ₹0.12 crore] as on March 31, 2023, as SCL utilised funds for capex requirement/reducing working capital borrowings. Furthermore, SCL had a moderate operating cycle which shortened from 107 days in FY22 to 79 days in FY23 owing to decrease in the collection and inventory period.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Castings & Forgings

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, 2023, at its unit located at Bhavnagar, Gujarat.

Brief Financials (Rs. crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	302.04	476.83	119.78
PBILDT	63.93	114.38	32.59
PAT	33.27	70.52	20.28
Overall gearing (times)	0.44	0.17	NA
Interest coverage (times)	36.04	40.62	181.06

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

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: Detailed explanation of covenants of the rated facilities is given in Annexure-3
Complexity level of various instruments rated: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of 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-EPC/PSC	-	-	-	-	109.65	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	31.25	CARE A-; Stable / 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 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/ ST-EPC/PSC	LT/ST*	109.65	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (22-Feb-23) 2)CARE BBB+; Positive / CARE A2 (05-Aug-22)	1)CARE BBB+; Stable / CARE A2 (05-Jul-21)	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	31.25	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (22-Feb-23) 2)CARE BBB+; Positive / CARE A2 (05-Aug-22)	1)CARE BBB+; Stable / CARE A2 (05-Jul-21)	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

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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