

## Magna Electro Castings Limited

January 4, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	15.00	CARE BBB+; Stable	Assigned
Long-term bank facilities	10.00	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	15.25 (Reduced from 16.25)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Magna Electro Castings Limited (MECL) continue to derive strength from the vast experience of the promoters, long track record of operations of over three decades in casting business, well-established manufacturing facilities, healthy capital structure and debt coverage indicators.

The ratings are, however, constrained by moderate scale of operations albeit improved during FY23 (refers to the period April 1 to March 31) with relatively lower level of capacity utilisation, exposure of margins to volatile raw material prices and foreign exchange risk and intensely competitive and fragmented nature of industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Consistent improvement in the scale of operations with income above ₹300 crore through diversified client base.
- Sustainable improvement in the operating margins above 15%.

#### Negative factors

- Any large-sized debt-funded capex leading to deterioration in capital structure with overall gearing levels greater than 0.80x.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects the company is expected to maintain comfortable capital structure with less reliance on external borrowings and sustained operational performance with steady order book position.

### Detailed description of the key rating drivers:

#### Key strengths

##### Vast experience of the promoters and management

MECL was promoted in 1990 by N. Krishna Samaraj, an Engineer and Management graduate by qualification. He has more than two decades of business experience in the casting industry. He is the ex-president of "The Institute of Indian Foundry men" and currently takes care of the overall management of the company. He is assisted by a well-qualified and experienced team of professionals to take care of the day-to-day operations of the company.

##### Long track record of operations of over three decades in casting business

MECL has a long track record of presence for over three decades in the industry. The company caters to different sectors, such as automotive, locomotive, windmill, transmission, valves industries with no sector contributing to more than 20% of the revenue. In automobiles, the company mainly supplies to heavy vehicle manufacturing companies. MECL also has niche products, such as complicated fabricating, prototyping, machining, and heat treatment. The company caters to both domestic and export markets with export sales contributing to 48% in FY23 (PY: 55%).

##### Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration. The company's manufacturing facility, spread over 10 acres of land has in-house facilities, such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. Some part of the machining is also done from its sister concern 'Samrajyaa and Company' located near MECL's unit. Additionally, the company is in plans to augment its moulding capacity, which will enable the Company to produce castings in different weight segments to cater to the requirements of its customers.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Healthy capital structure

The capital structure of MECL stood healthy with nil debt obligations as on March 31, 2023. The total debt / gross cash accruals (TDGCA) ratio also stood comfortable at 0.01x as on March 31, 2023 (PY: 0.42x). The interest coverage stood healthy at 89.77x during FY23 (PY: 42.77x). The company is undertaking debt funded capex to augment its moulding capacity, which will enable the company to produce castings in different weight segments to cater to the requirements of its customers, which is expected to be completed by December 2024. Nevertheless, the capital structure is expected to remain healthy with accretion of profits.

### Key weaknesses

#### Moderate scale of operations however improved in FY23

Despite the long track record of operations and relationship with a wide array of clients across industries, the size of operations remained relatively moderate marked by operating income of the company at ₹165 crore in FY23, albeit improved from ₹135 crore in FY22, with recovery in demand to pre-covid levels. The capacity utilisation levels have been moderate in the range of 55% to 65% for the past three years ended FY23.

#### Margins exposed to volatile raw material prices and foreign exchange risk

The primary raw materials used for the ductile iron casting include steel scrap and ferro alloys, whose prices are inherently volatile and driven largely by global as well as local demand and supply conditions. Hence, any volatility in the prices of these materials may impact the profitability of MECL. The steel scrap prices has increased significantly during Q4FY22 after the outbreak of Russia-Ukraine war and has reduced after Q2FY23. Furthermore, CARE Ratings Limited (CARE Ratings) notes that with about 48% of the income from export markets, the company's realisations are also exposed to the risk on volatility in foreign exchange rates.

#### Highly competitive nature of industry

The demand for castings industry is driven primarily by growth in infrastructure, industrial growth and the need for energy-efficient solutions. India is a strong base for manufacturing of casting-related products with presence of more casting units. India's low-cost manufacturing and local demand has made it a profitable proposition. The presence of international players in the market has led to a significant up-gradation in technology leading to better solutions for end-users. The automobile and pumps segment accounts for major market for castings, which are cyclical in nature. Low entry barriers and a price-sensitive end user have led to unorganised sector capturing some share in the market leading to price competition.

#### Liquidity: Adequate

The liquidity of the company is adequate with NIL long-term debt repayments against accruals of ₹22.15 crore in FY23 and free cash balance of ₹21.55 crore as on March 31, 2023. The working capital utilization stood low at 5.58% during the 12 months ended November 2023. The current ratio of the company stood comfortable at 3.20x as on March 31, 2023 (PY: 2.7x). The company gives a credit period of 75-90 days to its foreign clients, while it gives a credit period of around 60-75 days to its domestic customers.

**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](#)
- [Auto Ancillary Companies](#)
- [Manufacturing Companies](#)

#### About the company and industry

##### Industry Classification

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

Magna Electro Castings Limited (MECL) is a public limited company listed in BSE and was incorporated in the year 1990 by N Krishna Samaraj who has more than two decades of business experience. MECL is engaged in business of manufacturing &

supplying ductile and grey iron castings in the weight range of 300 grams to maximum of 2000 kilograms. MECL also produces fully-machined components utilising its in-house CNC machine shop and other facilities as well. MECL caters to various end-user industries like auto, locomotives, valve, windmills, transmission, etc. As on March 31, 2023, MECL had an installed capacity of 13140 MT for production of ductile iron castings.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	H1FY24 (UA)
<b>Total operating income</b>	135.84	164.65	72.20
<b>PBILD</b>	13.63	25.67	12.16
<b>PAT</b>	7.72	17.12	7.5
<b>Overall gearing (times)</b>	0.06	0.00	NA
<b>Interest coverage (times)</b>	42.77	89.77	152.00

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

**Complexity level of various instruments rated:** 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		-	-	-	10.00	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	October 2030	15.00	CARE BBB+; Stable
Fund-based - ST-FBN / FBP		-	-	-	10.00	CARE A2
Non-fund-based - ST-BG/LC		-	-	-	5.25	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-Cash credit	LT*	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (31-Jan-23)	1)CARE BBB+; Stable (27-Dec-21)	1)CARE BBB+; Stable (04-Jan-21)
2	Fund-based - ST-FBN / FBP	ST**	10.00	CARE A2	-	1)CARE A2 (31-Jan-23)	1)CARE A2 (27-Dec-21)	1)CARE A2 (04-Jan-21)
3	Non-fund-based - ST-BG/LC	ST	5.25	CARE A2	-	1)CARE A2 (31-Jan-23)	1)CARE A2 (27-Dec-21)	1)CARE A2 (04-Jan-21)
4	Fund-based - LT-Term loan	LT	15.00	CARE BBB+; Stable				

\*Long term / \*\*Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities** Not applicable**Annexure-4: Complexity level of 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	Fund-based - ST-FBN / FBP	Simple
4	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 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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