Revent Metalcast Limited (erstwhile Castex Technologies Limited)

February 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long -term/ Short-term Bank Facilities	50.00	CARE BBB-; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

Ratings assigned to the bank facilities of Revent Metalscast Limited (RML) continue to derive strength from the resourceful parent viz. Deccan Value Investors (DVI) with substantial financial support, experienced management team, and a reputed client base. Ratings also factor expectation of improvement in operating performance in the medium term 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 the promoter's financial support. CARE Ratings Limited (CARE Ratings) also take cognizance of the fact that the company has proposed to and agreed with the promoter (the non-convertible debenture (NCD's) holders)) for repayment of entire NCDs aggregating ₹268 crore at par, by issuing equity shares to its existing equity shareholder viz. Hudson Bay Acquisition LLC in FY24 which is expected to result in augmentation of its net-worth base and improved capital structure.

Rating strengths are, however, tempered by limited track record post change in management, high customer concentration, continued loss-making operations leading to weak debt coverage indicators, raw material price fluctuation and the company's exposure to the cyclical automobile industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining turnaround in operations with the company turning positive at the profit after tax (PAT) level
- Significantly growing scale of operations marked by total operating income (TOI) of more than ₹500 crore with profit before interest, lease rentals, depreciation and tax (PBILDT) margin of more than 5%

Negative factors

- Cash losses on a sustained basis
- Delaying infusion of ₹268 crore equity and consequent delaying repayment of NCDs
- Lower-than-envisaged or delaying need-based financial support from the promoters
- Total debt/PBILDT beyond 5 times on a sustained basis

Analytical approach: Standalone

Outlook: Stable

Stable outlook to the long-term rating factors in expectation of improvement in operating performance and leverage position of the company in the medium term along-with expected need-based support from DVI till the time there is turnaround in its performance.

Detailed description of the key rating drivers:

Key strengths

Resourceful investor with substantial financial support:

RML had been acquired by Hudson Bay a 100% subsidiary of (DVI under the insolvency proceedings. Promoted by Vinit Bodas in November 2004, DVI is a USA-based hedge fund which manages funds aggregating USD 3.7 billion across the USA, France, Italy, India and Vietnam. DVI USA holds 90% stake in RML and has infused funds of ₹268 crore through NCDs. Going forward, need-based financial support is expected to come from the promoters for the capital expenditure (capex) and other business requirements of RML.

Experienced management:

RML is led by Prakash Hari Khose, MD of the company. He has a vast experience of 31 years in the automotive industry and has worked with reputed automobile companies. The other members of the board of RML comprise of eminent industry experts and professionals. CARE Ratings 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.

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

Reputed clientele; but customer concentration:
RML had an established and long-standing relationship with its clients over the years. However, the same was impacted as the company entered into Corporate Insolvency Resolution Process (CIRP). Sales from top 10 customers remained concentrated at around 76% in FY23; which, however, is mitigated to some extent as the same is spread across various models of respective companies. 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 in medium-term:
TOI of the company increased by about 15% in FY23 as compared to FY22. However, TOI of the company declined in H1FY24 as the company has discontinued the supplies to some customers which has a lower contribution margin. Major customer to which supplies are discontinued is from south India which has a higher logistics cost. Thus, TOI is expected to remain moderate in FY24. However, the company is in a discussion with customer to increase the prices.
The company has planned to launch some new products like rear case, hub, friction disc and has already got orders worth about ₹65 crore from new customers which is expected to have a better contribution margin. Apart from these finalised orders, about ₹70 crore of orders are in pipeline which are expected to be finalised by the end of FY24. Thus, TOI and profitability margins are expected to improve from FY25 onwards.

Liquidity: Adequate

The liquidity of the company is expected to remain adequate in-spite of expected cash losses on the back of largely no term debt with moderate utilisation of its working capital limits. Moreover, the company has proposed to and agreed with the promoter for repayment of entire NCDs aggregating ₹268 crore at par, by issuing equity aggregating ₹268 crore in FY24. However, the company plans to take term debt of about ₹30 crore in FY25 to fund its capex plans, repayment of which will be due in FY26. The liquidity profile of the company is also supported by the expected need-based financial support from DVI.

Key weaknesses

Limited track record post recent change in management:
As DVI took over RML 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. The company has shown an improved operating performance in FY23 with a total income of ₹400.33 crore and it reported losses at PBILDT level. However, the company's TOI in H1FY24 declined to ₹146.10 crore as it curtailed the supplies to some customers where it has a lower contribution margin. Going forward, ability of the company to profitably increase its scale will remain a key monitorable.

Continued loss-making operations:
RML continues to incur cash losses since change in management. During FY23, it incurred cash losses of ₹15.19 crore whereas in H1FY24, it incurred cash losses of ₹5.38 crore. Its cash losses are expected to decline in FY24 and it is expected to have cash surplus only from FY25. Accordingly, timely need-based support from DVI would be critical in the medium-term.

Levered capital structure expected to improve:
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. Net worth base of the company stood negative at ₹-34.29 crore as on March 31, 2023 as against net worth base of ₹43.40 crore as on March 31, 2022. However, it is expected to improve as the company plans to redeem NCD's of ₹268 crore issued by the promoter and issue equity shares to them in FY24.

Exposure to cyclicality in demand in automobile industry:
The automotive industry is subject to cyclical variations in performance and is very sensitive to various policy changes. The company's performance remains closely aligned to the performance of key customers and in-turn is exposed to cyclical demand patterns inherent to the automobile industry and ability of the original equipment manufacturers (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 letter of credit (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.

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
Consumer discretionary	Automobile and Auto components	Auto components	Auto components & equipment

RML 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 Bhiwandi 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. Post-acquisition by DVI USA, name of the company has changed to Revent Metalcast Limited from Castex Technologies Limited w.e.f November 03, 2022.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	347.51	400.33	146.10
PBILDT	-23.23	-5.35	-4.14
PAT	-4,532.71	-79.56	-35.18
Overall gearing (times)	6.15	NM	NM
Interest coverage (times)	NM	NM	NM

A: Audited; UA: Unaudited; NM: Not meaningful; 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/ 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 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-Bill discounting/ Bills purchasing	LT/ST*	50.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (20-Dec-22)	-	-

*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/ ST-Bill discounting/ Bills purchasing	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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