Investment & Precision Castings Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.00 (Reduced from 17.47)	CARE BBB-; Stable	Reaffirmed
Long-term / Short-term bank facilities	7.00	CARE BBB-; Stable / CARE A3	Revised from CARE A3
Long-term / Short-term bank facilities	57.00 (Enhanced from 50.00)	CARE BBB-; Stable / CARE A3	Revised from CARE BBB-; Stable

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 vast experience of its promoters in the investment castings business, its established manufacturing facilities, long standing relation with key customers, improved profitability in FY24 (FY refers to April 01 to March 31) along with moderate capital structure as well as debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate scale of operations, 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Diversifying revenue profile resulting in significantly reducing customer and end-user industry concentration, thereby entailing greater stability to its revenue and profitability.
- Significantly improving capacity utilisation and total operating income (TOI) more than ₹180 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 13% on a sustained basis.
- Improving debt coverage indicators while maintaining its moderate capital structure.

Negative Factors

- Declining scale of operations with total operating income (TOI) going below ₹100 crore and PBILDT margin below 10% on a sustained basis.
- Major debt-funded capex and/or increasing working capital intensity leading to deteriorating overall gearing to more than 1x on a sustained basis.
- Elongating operating cycle beyond 160 days impacting its liquidity on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

A 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity is likely to sustain its operating performance considering the benefits derived from established presence of the company in the industry along with growing demand of automobiles in domestic market and its reputed clientele.

Detailed description of the key rating drivers

Key strengths

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. (rated 'CARE AAA; Stable / CARE A1+'), Tata Motors Ltd. (rated '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 portfolio to diversify its customer base in Defense and Aerospace segments.

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

Moderate capital structure and debt coverage indicators
IPCL's overall gearing remained relatively stable at moderate level of 0.87x as on March 31, 2024 [PY: 0.83x]. Tangible net worth (TNW) base augmented on the back of accretion of profits into reserves and continued to remain moderate at ₹85 crore as on March 31, 2024 [PY: ₹78 crore]. IPCL's total outside liabilities (TOL)/TNW was also comfortable at 1.29x as on March 31, 2024.
With stable performance, the company's debt coverage indicators remained stable with interest coverage of 3.54x [PY: 3.13x] and total debt to gross cash accruals (GCA) of 4.36x [PY: 4.68x] in FY24.

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. Piyush Tamboli, Chairman & Managing Director, has vast experience in the castings and auto components industry, which is evident from IPCL's satisfactory operations for over four decades through various economic cycles. IPCL has well-established manufacturing facility in Bhavnagar, Gujarat, with total casting capacity of 3,000 MTPA (including 15 MTPA for vacuum castings) as on March 31, 2024. 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-FY24, IPCL had installed CNC machines, made changes in facility structure with an intent to increase production efficiency and undertook facility upgradation capex including addition of some machines and a furnace with cost of ₹14 crore. The said expenditure was funded through term loans of ₹7.50 crore and balance through internal accruals.

Key weaknesses
Moderate scale of operations albeit healthy profitability
During FY24, IPCL's scale of operations marked by its TOI remained stable at ₹171.27 crore [PY: ₹170.28 crore] on account of relatively stable sales volume as well as price realisation. However, operating profitability marked by its PBILDT margin improved by 224 bps y-o-y and remained healthy at 15.06% in FY24 as against 12.82% in FY23 owing to lower raw material cost incurred during FY24. With increase in operating margin, the company's profit after tax (PAT) margin increased marginally by 129 bps y-o-y to 4.56% in FY24 [PY: 3.27%].

High customer and end-user industry concentration
IPCL supplies majority of its castings to the automobile industry as reflected from ~71% [PY: ~73%] of its total revenue derived from auto industry in FY24 leading to end-user industry concentration risk. Also, IPCL primarily operates in the domestic market which constituted ~87% of total sales in FY24, which makes it vulnerable to slowdown in demand from the cyclical domestic automobile industry. Moreover, top five customers of IPCL constituted ~55% of its TOI in FY24, exhibiting customer concentration risk, wherein IPCL has relatively lower bargaining power against 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 quarterly basis, which reduces risk associated with volatility in raw material prices to a certain extent.
In FY24, out of total cost of sales of IPCL, nearly 31% comprises of job work charges which reflects 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 original equipment manufacturers (OEMs).

Liquidity: Adequate
IPCL's liquidity position was adequate marked by moderate cash accruals which are sufficient to cover long-term debt repayment obligations coupled with moderate cash flow from operations (CFO) and unencumbered cash and bank balance.
The unencumbered cash and bank balance with the company remained at ₹1.42 crore as on March 31, 2024, while CFO decreased in tandem with contraction in creditors level, though remained moderate at ₹6 crore in FY24 [PY: ₹12 crore]. The company

reported net cash accruals (NCA) of ₹17 crore in FY24 and expected NCA of ₹14-20 crore in FY25-FY27 period which shall be adequate to cover gross loan repayment of ~₹3-9 crore in near term.
IPCL needs to maintain high WIP inventory due to complex and lengthy production process of investment castings. Further, owing to funding of capex requirement of IPCL primarily from internal accruals, its working capital limit utilisation remained high marked by average utilisation of fund-based working capital facilities remained at ~93% p.a. [PY: ~88% p.a.] in trailing 12 months ended in April 2024. In FY24, IPCL's operating cycle elongated from 98 days in FY23 to 125 days in FY24 on account of increase in collection and inventory period [on the back of averaging effect] while there was significant decrease in creditors.

Applicable criteria:

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Auto Components & Equipments
Short Term Instruments

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

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 OEM for some of the leading domestic automobile manufacturers. During FY18, IPCL also commenced manufacturing of vacuum castings, which find application across industries such as 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, 2024, at its plant located at Bhavnagar, Gujarat.

Brief Financials (₹ crore)	FY23 (A)	FY24 (Pb)
Total operating income	170.28	171.27
PBILDT	21.83	25.80
PAT	5.56	7.80
Overall gearing (times)	0.83	0.87
Interest coverage (times)	3.13	3.54

A: Audited; Pb: Published results along with schedules; Prov.: Provisional. 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 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 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-Term loan	-	-	-	30/04/2030	10.00	CARE BBB-; Stable
Fund-based - LT/ ST-Cash credit	-	-	-	-	57.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	7.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Jun-23)	1)CARE BBB-; Stable (04-Jul-22)	1)CARE BBB-; Stable (24-Jun-21)
2	Fund-based - LT/ ST-Cash credit	LT/ST	57.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable (22-Jun-23)	1)CARE BBB-; Stable (04-Jul-22)	1)CARE BBB-; Stable (24-Jun-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	7.00	CARE BBB-; Stable / CARE A3	-	1)CARE A3 (22-Jun-23)	1)CARE A3 (04-Jul-22)	1)CARE A3 (24-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of the 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-Term loan	Simple
2	Fund-based - LT/ ST-Cash credit	Simple
3	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 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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