

Simplex Castings Limited

July 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	59.00	CARE B; Stable	Assigned
Short Term Bank Facilities	13.00	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Simplex Castings Limited (SCL) constrained by past track record of delay in debt servicing, small scale of operation with moderate PBILDT margins, leveraged capital structure and debt coverage indicators, volatility in raw material and finished goods, intense competition in steel industry and working capital intensive nature of operations.

However, rating derives comfort from long experience of promoters, diversified product portfolio catering to varied industries and reputed clientele, satisfactory orderbook position and strategic location of plant.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sizeable increase in scale of operations (Total operating income > Rs. 150.00 crore) while maintaining current profitability on a sustained basis.
- Improvement in overall gearing to below 1.50x

Negative factors

- Any sizeable de-growth in scale of operation from present level (Total operating income < Rs. 100 crores) and dip in PBILDT margin below 8% on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook is on account of existing orders in hand which gives revenue visibility in the near term while maintaining current operating profit margins.

Detailed description of the key rating drivers:

Key weaknesses

Past record of delay in debt servicing:

There has been instance of delays in serving of term loan in the past with last delay on April 3, 2024, and overutilization in CC limits till April 4, 2024. However, post April 05, 2024, there has not been any delay in debt servicing and also no instances of overutilization in working capital limits.

Small scale of operation with moderate PBILDT margin:

The total operating income of the company has shown a growth at CAGR of ~33.78% over the last 3 year from Rs. 91.95 crore in FY22 to Rs. 123.01 crores in FY24, it continues to remain small. PBILDT margin stood moderate at 11.48% in FY24 as against 12.55% in FY24. The profitability of the company is dependent on steel prices & its volatility. The company is enhancing its annual capacity by 6000 MT p.a. for manufacturing of Bogie at an estimated cost of Rs.8 crore with COD from October 2024. Entire infusion of funds have been done in current FY and till date, around Rs.5 crore has been spent. This is expected to enhance the monthly revenue by Rs 4 to 6 crore per month.

In Q1FY25, the company has achieved Total Operating Income (TOI) of Rs. 29.80 crore.

Leveraged capital structure and debt coverage indicators:

The capital structure of the company continues to remain leveraged marked by overall gearing ratio of 2.17x in FY24 as against 2.16x in FY23 and 1.42x in FY22. Moderation in leverage ratio from FY22 is mainly on account of one-time exceptional loss booked

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

in FY23 due to inventory losses of around Rs.21 crore pertaining to order from Ukraine based Private Joint Stock Company prior to start of war in Feb 2022. Interest coverage ratio stood at 1.12x in FY24 as against 1.13x in FY23.

Volatility in price of raw material and finished goods:

SCL does not have any backward integration as the primary raw material for SCL is iron/steel scrap, it is dependent on steel price fluctuation. However, this is partly offset by the fact that the finished product is also a steel related item, and the company can pass on the price fluctuation to its customers, to a certain extent. Prices of raw material as well as finished goods (C. I. Castings, SG Iron castings, MS ingots etc.) have always been volatile. SCL operates on moderate margin and raw material cost is one of the major cost drivers. Hence, SCL is sensitive to adverse movement in prices of finished goods and/or raw materials.

Intense competition and cyclicity in the steel industry:

Steel is a cyclical industry, strongly correlated to economic cycles since its key users; construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Fall in demand in these sectors directly impacts demand of steel products. The steel industry is sensitive to shifting business cycles, including changes in general economy, interest rates and seasonal changes in the demand and supply conditions in the market. The steel industry is highly competitive with organized and unorganized players and limited product diversity due to commodity nature of products. Over the years, the industry has become more organized with the share of unorganized players reducing, margins continue to be under pressure due to industry fragmentation.

Working capital intensive nature of operation:

The operation of the company is working capital intensive in view of adequate inventory to be kept and credit period to be given to customers to gain market share. This leads to higher working capital requirement. The working capital requirement of the SCL will be mainly financed through bank borrowings and creditors. The operating cycle of the company stood at 171 days in FY24 (181 days in FY23).

Key strengths**Long experience of promoters:**

The company is promoted by Mr. Ketan Shah & Mrs Sangeeta K Shah. The promoters have more than two decades of experience in the same industry. Mr Ketan Shah joined Simplex Castings Limited in March 1993 as a Director. He became the Managing Director of the Company in July 2010 and Chairman of the Company in August, 2015.

Mrs Sangeeta Ketan Shah holds master's degree in business administration. She is an active member of Industrial Association, CII, IIF, Chhattisgarh Skills Development, and also holds membership in various other associations. Since a decade, she worked in different capacities in Simplex Castings Limited and joined Board of the company as an Executive Director from 1 October, 2014.

Diversified product portfolio catering to varies industries and reputed clientele:

SCL is engaged in manufacturing of heavy engineering castings in grey cast iron, alloy cast iron, stainless steel and steel which find usage in core industries like steel, power, cement, sugar, railways, mining, etc. This enables the company to diversify the industry concentration risk.

Satisfactory orderbook position:

The company has unexecuted order book of around Rs.121 crore (~1.0x of TOI of FY24) which would be executed within 18-20 months. Moreover, the company is diversifying into supply of railway bogies from October 2024 once the ongoing capacity expansion is completed. The same is expected to increase monthly revenue by Rs.4-6 crore as articulated by management.

Strategic location of plant:

The facility is in proximity to source of raw material due to which they can easily procure their raw material from vendor by incurring low transportation cost and also able to sale to its customers in a short period of time. As there are number of companies operating in this region producing raw materials for iron & steel industry, availability of raw material is not an issue.

Liquidity: Stretched

The entity has stretched liquidity position on account almost full utilization of working capital limits with instances of overdrawing. The last instance of overdrawing in cash credit account happened on April 04, 2024. The last delay in term loan repayment happened till April 3, 2024.

Post April 05, 2024, no overutilization happened in working capital limits or delay in debt servicing happened. The company has debt repayment obligation in FY25 stood at Rs.1.72 crore which is expected to be met out of gross cash accruals of the entity. For non-fund facilities, utilization of LC is nil and minimal utilization of BG as articulated by lenders.

Applicable criteria

- [Definition of Default](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Manufacturing Companies](#)
- [Financial Ratios – Non financial Sector](#)
- [Short Term Instruments](#)
- [Iron & Steel](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Simplex Castings Ltd. (SCL), incorporated in 1970 as a partnership firm, was promoted by Shri H.B. Shah of Bhilai. It was converted into public limited company in January 1980. Currently the company is managed by Mr. Ketan Shah. The company is engaged in manufacturing of heavy engineering castings in grey cast iron, alloy cast iron and stainless steel at three manufacturing facilities in Chhattisgarh. It has installed capacities of 24600 MTPA for Cast Iron Castings (C. I Castings), Steel, Spheroidal Graphite Iron (S G Iron), Special Alloy Castings and fabricated equipment. The company's major products include heavy railway structures, coke oven doors and other structural required for heavy engineering industries.

SCL's Bhilai foundry certified from Research Designs & Standards Organisation RDSO as "A" Class foundry for Indian Railway (IR).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	116.61	123.01
PBILDT	14.63	14.13
PAT	-16.99	2.39
Overall gearing (times)	2.16	2.17
Interest coverage (times)	1.75	1.64

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:

As per PR dated May 16, 2024, Brickwork continues the rating under Issuer Not Cooperating as the company did not provide the relevant information.

As per PR dated December 28, 2023, Acuite (SMERA) continues the rating under Issuer Not Cooperating as the company did not provide the relevant information.

As per PR dated August 18, 2023, India Ratings placed the rating under Issuer Not Cooperating as the company did not provide the relevant information.

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		-	-	-	35.00	CARE B; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	24.00	CARE B; Stable
Non-fund-based - ST-Letter of credit		-	-	-	13.00	CARE A4

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 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	Non-fund-based - LT-Bank Guarantee	LT	24.00	CARE B; Stable				
2	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A4				
3	Fund-based - LT-Cash Credit	LT	35.00	CARE B; Stable				

LT: Long term; ST: 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	Non-fund-based - LT-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	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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