

## Steel Cast Limited

August 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / short-term bank facilities	140.90	CARE A-; Stable / CARE A2+	Reaffirmed

Details of facilities in Annexure -1

### Rationale and key rating drivers

The ratings assigned to bank facilities of Steel Cast Limited (SCL) continue to derive strength from its promoters' vast experience in the casting business, established manufacturing setup, and reputed albeit concentrated clientele in both domestic and export markets. Ratings also take cognisance of SCL's healthy profitability coupled with strong solvency position as well as debt coverage indicators in FY24 (FY refers to period from April 01 to March 31) and its adequate liquidity.

However, ratings are 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.

Ratings also take cognisance of moderation in SCL's scale of operations in FY24 as well as Q1FY25 due to moderation in export demand.

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

#### Positive factors

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

#### Negative factors:

- Substantial volume-driven decline in the scale of operations along with moderating PBILDT margin below 15% on a sustained basis.
- Deteriorating overall gearing to more than 0.60x and total debt to gross cash accruals (TDGCA) 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 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 castings industry for more than six decades

SCL is one of the established manufacturers of steel and alloy steel castings in India with more than six decade long track record of operations and has an established marketing arrangement in domestic as well as international markets. The promoters of the company, i.e. family of late Shri M.F. Tamboli has vast experience in the casting business, which is evident from the satisfactory operations of SCL over the years through economic cycles. The promoters have infused need-based funds to support the operations of the company in business downturns. Chetan Tamboli, Chairman & Managing Director, looks after the company's overall management and the operations are supported by experienced professionals.

<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.

### **Established operations with ability to manufacture wide range of castings**

SCL's manufacturing facility is located at Bhavnagar (Gujarat) with total casting capacity of 29,000 metric tonnes per annum (MTPA) as on March 31, 2024. 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, ground engaging tools, locomotive, construction, transport and other end-user industries, such as railways, 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 separate approval processes 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.

Moreover, the company has diversified its revenue stream as a part of de-risking initiative with addition of four to five new industries and 30-35 new customers in last couple of years which is expected to safeguard its performance in economic slowdowns.

### **Healthy profitability**

The company reported healthy operating profitability marked by PBILDT margin which increased by 467 bps Y-o-Y from 23.99% in FY23 to 28.65% in FY24 on the back of decreasing trend in steel price coupled with benefit from recently concluded process improvement / debottlenecking capex as well as renewable energy (RE) power projects. Consequently, profit after tax (PAT) margin of the company too increased by 351 bps Y-o-Y to 18.30% during FY24 in line with the growth at PBILDT level. In Q1FY25, profitability of the company continued to remain healthy marked by PBILDT and PAT margin of 26.50% and 16.46% respectively. Going forward, CARE Ratings expect operating profitability to sustain on back of various cost optimisation initiatives taken by the company.

### **Strong capital structure and debt coverage indicators**

SCL's capital structure remained comfortable with 'Nil' overall gearing as on March 31, 2024, owing to almost nil outstanding working capital borrowings as against moderate tangible net worth (TNW) of ₹269 crore. Going forward, with no major debt-funded capex planned, CARE Ratings expects SCL to maintain its comfortable capital structure.

Overall debt coverage indicators strengthened on the back of increased profitability coupled with decreased debt levels marked by PBILDT interest coverage ratio of 92x and 'Nil' TDGCA in FY24. In Q1FY25, debt coverage indicators continued to remain healthy with interest coverage of 208x.

### **Key weaknesses**

#### **Moderation in scale of operations in FY24 and Q1FY25**

SCL's TOI moderated by 14% Y-o-Y from ₹477 crore in FY23 to ₹410 crore in FY24 owing to 17% Y-o-Y decline in sales volume. In Q1FY25, the company registered 34% Y-o-Y degrowth in its TOI to ₹79 crore. The moderation in scale was owing to excess inventory available with its customers coupled with slowdown in major economies which has impacted the sector. Hence, CARE Ratings expects TOI to moderate over the near term. However, recovery is envisaged from FY26 onwards.

#### **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 (74% of TOI derived from these segments in FY24), 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. As articulated by the management, the company is diversifying its product offering and has entered into a long-term 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 clause in majority of its orders and hence it is able to pass on any movement in the raw material as well as fuel price 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 57% of SCL's net sales in FY24 [FY23: 61%], 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. In FY24, SCL reported forex gain of ₹3.25 crore as against gain of ₹7.03 crore in FY23.

### Liquidity: Adequate

SCL's liquidity position remained adequate marked by healthy CFO and cash accruals against nil debt repayment obligation along with low utilisation of working capital limits and liquid funds available with the company.

SCL reported healthy net cash accruals (NCA) of ₹74 crore in FY24 and expected to generate NCA of ~₹50-85 crore in FY25-FY27 against nil scheduled debt repayment obligation over the same period. Subsequent to healthy cash accruals and absence of any major capex in FY24, SCL's liquid funds increased from ₹8 crore as on March 31, 2023 to ₹34 crore as on March 31, 2024. Average working capital utilisation remained low at ~1% in past 12 months ended June 2024.

SCL's cash flow from operations (CFO) also continued to remain healthy at ₹85 crore in FY24. SCL's operating cycle remained moderate, though elongated from 79 days in FY23 to 89 days in FY24 owing to increase in collection period.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria:

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

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[Short Term Instruments](#)

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### About the company and industry

#### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Castings & Forgings

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 29,000 metric tons per annum (MTPA) as on March 31, 2024, at its unit located at Bhavnagar, Gujarat.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	476.83	409.81	78.57
PBILDT	114.38	117.43	20.82
PAT	70.52	75.00	12.93
Overall gearing (times)	0.17	0.00	NA
Interest coverage (times)	40.62	92.00	208.20

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 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-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 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/ ST-EPC/PSC	LT/ST	109.65	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Oct-23)	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)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	31.25	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Oct-23)	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)

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/ 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 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](mailto:care@careedge.in) for any clarifications.

## Contact us

<b>Media Contact</b>  Name: Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Name: Kalpesh Patel Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5611 E-mail: <a href="mailto:Kalpesh.patel@careedge.in">Kalpesh.patel@careedge.in</a>
<b>Relationship Contact</b>  Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a>	Name: Anuja Parikh Associate Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5616 E-mail: <a href="mailto:anuja.parikh@careedge.in">anuja.parikh@careedge.in</a>
	Name: Harsh Desai Assistant Director <b>CARE Ratings Limited</b> E-mail: <a href="mailto:harsh.desai@careedge.in">harsh.desai@careedge.in</a>

### About us:

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