

Magna Electro Castings Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	25.00	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	15.25	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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

However, ratings are constrained by moderate scale of operations 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 scale of operations with income above ₹300 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 15%.

Negative factors

- 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 orderbook position.

Detailed description of key rating drivers:

Key Strengths

Vast experience of promoters and the management

MECL was promoted in 1990 by N. Krishna Samaraj, an Engineer and Management graduate by qualification. He has over 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 company's overall management. He is assisted by a well-qualified and experienced team of professionals to take care of day-to-day operations.

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

MECL has a long track record of over three decades in the industry. The company caters to different sectors, such as automotive, locomotive, windmill, transmission, and valves industries with no sector contributing over 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 domestic and export markets with export sales contributing to 47% in FY24 (PY: 48%).

Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration, having in-house facilities such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. MECL has windmills of 3.25 MW for captive consumption and has also entered solar power purchase agreement for the next 20 years, which together meets ~80-85% of its power requirements. The company is undertaking capex to augment its moulding capacity, which complements existing product profile and will enable the company to produce castings from 1 Kg to 250 Kgs segments entirely.

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

Healthy capital structure and debt coverage indicators

MECL's capital structure stood healthy with nil debt obligations as on March 31, 2024. Interest coverage stood healthy at 154.19x in FY24 (PY: 89.77x). The company is undertaking debt funded capex to augment its moulding capacity, which will enable it to produce castings in different weight segments to cater to requirements of its customers. This capex is expected to be completed by February 2025. The capital structure is expected to remain healthy with accretion of profits.

Key Weaknesses

Moderate scale of operations

The company's scale of operations remains relatively modest with operating income of ₹143.7 crore in FY24, which declined from ₹164.6 crore in FY23 considering subdued demand in domestic and export market. As the company focusses mainly on low volume and high margin orders, capacity utilisation levels have been moderate at 53% in FY24 (PY: 60%). However, demand has rebounded, and the company has posted a revenue of ₹87.8 crore in H1FY25 (H1FY24: ₹72.2 crore).

Margins exposed to volatile raw material prices and foreign exchange risk

MECL's financial risk profile is constrained by volatile PBILDT margins, although comfortable in the range of 10%-16% in the last three years ended FY24. Primary raw materials used for ductile iron casting include steel scrap and ferro alloys, prices of which are inherently volatile, driven largely by global and local demand, and supply conditions. Price volatility of these materials may impact MECL's profitability. With ~47% income from export markets, the company's realisations are also exposed to risk foreign exchange rate volatility.

Highly competitive industry

Demand for the 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 casting-related products with presence of more casting units. India's low-cost manufacturing and local demand has made it a profitable proposition. Presence of international players in the market led to a significant upgrades 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 company's liquidity is adequate with NIL long-term debt repayments against accruals of ₹20-25 crore in FY25 and free cash balance of ₹20.73 crore as on March 31, 2024. Working capital utilisation stood low and is hardly utilised in 12 months ended October 2024. The company's current ratio stood comfortable at 4.04x as on March 31, 2024 (PY: 3.20x). The company gives a credit period of 75-90 days to its foreign clients, while it gives a credit period of ~60-75 days to its domestic customers.

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](#)

[Financial Ratios – Non financial Sector](#)

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[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Castings & forgings

MECL is a public limited company, listed on the BSE and was incorporated in 1990 by N Krishna Samaraj, who has over two decades of business experience. MECL is engaged in manufacturing and 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. MECL caters to end-user industries including auto, locomotives, valve, windmills, and transmission, among others. As on March 31, 2023, MECL had an installed capacity of 13140 MT for production of ductile iron castings.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25(UA)
Total operating income	164.65	143.70	87.80
PBILDT	25.67	23.37	19.36
PAT	17.12	15.11	13.44
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	89.77	154.19	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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 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-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-24)	1)CARE BBB+; Stable (31-Jan-23)	1)CARE BBB+; Stable (27-Dec-21)
2	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (04-Jan-24)	1)CARE A2 (31-Jan-23)	1)CARE A2 (27-Dec-21)
3	Non-fund-based - ST-BG/LC	ST	5.25	CARE A2	-	1)CARE A2 (04-Jan-24)	1)CARE A2 (31-Jan-23)	1)CARE A2 (27-Dec-21)
4	Fund-based - LT-Term Loan	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-24)	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities Not applicable**Annexure-4: Complexity level of 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 detailsTo view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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