Steel Cast Limited

February 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	90.90	CARE A-; Stable / CARE A2+	Revised from CARE BBB+; Positive / CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Steel Cast Limited (SCL) takes into account the significant growth in the scale of operation along with sustained healthy profitability during FY22 (refers to the period from April 01 to March 31) and 9MFY23 (refers to the period from April 01 to December 31). The ratings also factor in its comfortable solvency position as well as debt coverage indicators, adequate liquidity and advance stage of completion of ongoing capital expenditure (capex) including renewable power-related capex which is being entirely funded though the internal accruals.

The ratings continue to derive strength from the vast experience of the promoters in the steel casting business and its established manufacturing setup along with reputed clientele in both domestic and export markets.

The ratings are, however, constrained by volatility associated with operations on account of its concentrated revenue profile and high customer concentration, susceptibility of its profitability to volatility associated with raw material prices and foreign exchange rates and its presence in a competitive and cyclical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-backed growth with total operating income (TOI) of over ₹600 crore and profit before interest, lease, depreciation and tax (PBIDT) margin of above 20% on a sustained basis.
- Diversification of its revenue profile resulting in significant reduction in its customer and end-user industry concentration, thereby achieving greater stability to its revenue and profitability.

Negative factors

- Decline in the scale of operations with TOI going below ₹300 crore along with PBILDT margin below 15% on a sustained basis.
- Major debt-funded capex leading to deterioration of overall gearing to more than 0.60x and deterioration in total debt to gross cash accruals (GCA) of more than 2x on a sustained basis.

Analytical approach: Standalone.

Key strengths

Significant growth in the scale of operation and sustained healthy profitability during FY22 and 9MFY23

The TOI of SCL grew significantly by around 91% from ₹157.73 crore during FY21 to ₹302.04 crore during FY22 and it further grew by around 71% on y-o-y basis from ₹209 crore during 9MFY22 to ₹356.51 crore during 9MFY23 on the back of strong sales volume growth as well as improvement in the average sales realisations, despite challenges amidst global inflationary scenario. Average sales realisation grew by around 23% during 9MFY23 over FY22 level. Capacity utilisation increased from 25% in FY21 to 44% in FY22 and 55% during 9MFY23, supported by healthy demand from the end-user industry. SCL has presence in both domestic as well as export market wherein exports contributed 65% of its total sales in 9MFY23 (9MFY22: 49%). Despite significant growth, SCL continued to have moderate scale of operation. It has an outstanding order book of around ₹130 crore as on December 31, 2022, to be executed by Q1FY24.

SCL continued to have healthy profitability marked by PBILDT margin of 21.17% during FY22 which improved from 19.97% during FY21. Furthermore, it remained at 23.56% in 9MFY23. Improvement in the operating margin was on the back of better product mix as well as better absorption of the fixed cost due to increase in the capacity utilisation. CARE Ratings Limited (CARE Ratings) estimates the PBILDT margin to remain in range of 20%-22% going forward on the back of saving in the power cost with the commencement of the captive as well as contracted renewable power plant from April 2023 and better operational efficiency with completion of on-going process improvements and de-bottlenecking initiatives.

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

With healthy profitability and moderate depreciation and low interest cost, GCA remained healthy at ₹49.33 crore during FY22 and ₹63.82 crore 9MFY23.

Comfortable capital structure and debt coverage indicators and advance stage of completion of capex

The total debt of SCL increased from ₹23.11 crore as on March 31, 2021 to ₹67.87 crore as on March 31, 2022 on the back of increase in the working capital borrowing to support its growing operations leading to moderation of the overall gearing. However, SCL continues to have comfortable capital structure on the back relatively low debt levels and augmentation of net worth base on the back of better profitability. The overall gearing remained at 0.44x as on March 31, 2022, as compared with 0.18x as on March 31, 2021. Furthermore, total outside liability to tangible net worth (TOL/TNW) remained comfortable at 0.72x as on March 31, 2022. Going forward, with no major debt-funded capex planned, CARE Ratings expects SCL to maintain its comfortable capital structure. Overall debt coverage indicators remained comfortable marked by PBILDT interest coverage and TDGCA of 36.04x and 1.38x, respectively, during FY22 as compared with 8.28x and 0.96x during FY21.

SCL is undertaking the capex of around ₹50 crore during FY23 which includes ₹22-23 crore for 5 MW of captive solar power plant and balance capex for the product development/process improvement. Earlier, SCL was planning to fund the capex through mix of equity and debt; however, the entire capex is now being funded through the internal accruals and SCL has incurred cost of around ₹40 crore of cost till December 31, 2022. SCL has invested is ₹4.50 crore as on December 31, 2022, in AMP Energy Green Nine Private Limited (AMP; a SPV), which is undertaking hybrid (solar and wind) power plant. It has signed the power purchase agreement with AMP for 4.50 MW of power purchase.

Experienced promoters and established player in the castings industry for more than six decades

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

Established operations with ability to manufacture wide range of castings and reputed clientele

SCL's manufacturing facility is located at Bhavnagar (Gujarat) with total casting capacity of 30,000 metric tonnes per annum (MTPA) as on December 31, 2022. 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, general engineering manufacturers and other end-user industries, such as railways, thermal power, oil exploration, shipping, cement and steel plants. It possesses the capability to produce more than 300 parts used in various industries. During FY22, SCL developed 60 new parts, which contributed around 16.50% of net sales in FY22. Furthermore, SCL intends to develop 100 more parts in the next three years, thereby widening its portfolio. Currently, SCL is undertaking the process improvement/de-bottlenecking capex as well as adding the renewable power capacity for total cost of around ₹50 crore. This includes 5 MW of solar power plant in SCL near Bhavnagar and 4.50 MW of hybrid (solar and wind) power plant through special purpose vehicle (SPV). This is expected to save the power and fuel cost to the tune of ₹9-10 crore annually. The power plants will commence operation from April 2023.

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.

Key weaknesses

Concentrated revenue stream with high customer concentration resulting in volatility in its operating performance

SCL continues to have high dependence on the mining and earth-moving equipment industry, which in turn derives demand from the cyclical mining and infrastructure/construction sectors with share of over 90% in the last 3-4 years. Also, SCL continues to have a high customer concentration risk as its top three customer groups contributed around 92% to its total net sales in H1FY23 (FY22: 91%). The same has resulted in the fluctuating scale of operation and adverse impact on its scale of operation in the past in case of decline in the demand from these customers. However, these customers are key players in the industry and SCL is dealing with multiple companies in the group. Furthermore, as articulated by the management, the company is diversifying its product offering and has entered into a long-term supply agreement to supply steel castings for a North American railroad original equipment manufacturer (OEM). The steel casting covered in this agreement is currently under approval stage. Fructification of the same will lead to broadening of the sectoral and customer profile of the company, which is a key rating monitorable. Also, SCL is diversifying into new segment, 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 clauses in the orders from its customers wherein the company passes on any movement in the raw material as well as fuel prices fluctuations to its customers on quarterly basis, which mitigates the risk associated with volatility in the raw material prices to certain extent. Also, CARE Ratings notes that due to its exports, which was around 65% of its net sales during 9MFY23 (FY22: 56%), SCL is exposed to adverse movement in forex rates. SCL has a natural hedge by way of its export sales exceeding significantly as compared with its imports. However, absence of active hedging policy makes its profitability susceptible to any adverse forex movement.

Liquidity: Adequate

SCL's liquidity remains adequate with cushioned available from un-utilised working capital limits, healthy cash accruals and nil term debt repayments. Average fund-based working capital utilisation remained moderate at around 81% trailing 12 months ended December 31, 2022. SCL has enhanced its working capital limits by ₹25 crore from November 2022, which will provide additional cushion to its liquidity. The cash flow from operation was negative at ₹0.07 crore during FY21 as compared with positive of ₹29.29 crore during FY22, on the back of increasing working capital requirement with growth in the scale of operations. SCL is expected to achieve strong GCA of above ₹78-80 crore during FY23 against nil term debt repayment obligation and adequate enough to fund its capex requirement of around ₹50 crore during FY23. Current and quick ratio remained at 1.33x and 0.78x, respectively, March 31, 2022.
Overall, SCL has working capital intensive operation with high gross current asset of 179 days (FY21: 189 days) and operating cycle of 107 days (FY21: 130 days).

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
Manufacturing Companies
Steel
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

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

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 30,000 metric tons per annum (MTPA) as on December 31, 2022, at its unit located at Bhavnagar, Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Published)
Total operating income	157.73	302.04	356.51
PBILDT	31.50	63.93	84.00
PAT	12.02	33.27	50.98
Overall gearing (times)	0.18	0.44	N.A.
Interest coverage (times)	8.28	36.04	42.54

A: Audited; N.A.: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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	-	-	-	-	74.65	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	16.25	CARE A-; Stable / CARE A2+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (30-Jul-19)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST*	74.65	CARE A-; Stable / CARE A2+	1)CARE BBB+; Positive / CARE A2 (05-Aug-22)	1)CARE BBB+; Stable / CARE A2 (05-Jul-21)	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)
3	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	-	-	1)Withdrawn (30-Jul-19)
4	Fund-based - ST-Others	ST	-	-	-	-	-	1)Withdrawn (30-Jul-19)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	16.25	CARE A-; Stable / CARE A2+	1)CARE BBB+; Positive / CARE A2 (05-Aug-22)	1)CARE BBB+; Stable / CARE A2 (05-Jul-21)	1)CARE BBB+; Negative / CARE A2 (11-Aug-20)	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I	**SCL to maintain following:**

Covenant	Threshold
Total outside liability to tangible net-worth	<1.50x
Current Ratio	>=1.33

Name of the Instrument	Detailed Explanation
	Term debt / Net cash accruals: <2x Net fixed asset / Term debt: >=2x Tangible net-worth: >₹112.00 Crore
B. Non-financial covenants	
	-

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 for any clarifications.

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About us:

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