

## Investment & Precision Castings Limited

June 24, 2021

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	62.05 (reduced from 65.73)	<b>CARE BBB-; Stable (Triple B Minus; Outlook: Stable)</b>	Revised from CARE BB+; Positive (Double B Plus; Outlook: Positive)
Short Term Bank facilities	7.00	<b>CARE A3 (A Three)</b>	Revised from CARE A4+ (A Four Plus)
<b>Total Facilities</b>	<b>69.05 (Rupees Sixty-Nine Crore and Five Lakh Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Investment & Precision Castings Limited (IPCL) takes into account improvement in its total operating income (TOI) & profitability margins during H2FY21 (FY refers to the period from April 1 to March 31) on the back of gradual revival in demand from its end-user automobile industry along with improvement in its debt coverage indicators and liquidity. Also, these improvements are expected to be sustained in the medium term. The ratings continue to derive strength from the vast experience of IPCL's promoters in the investment castings business, its established manufacturing facilities, long standing relation with its key customers along with its moderate capital structure.

The ratings, however, continue to remain constrained on account of its modest scale of operations with 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

#### Positive Factors

- Diversification of its revenue profile resulting in significant reduction in its customer and end-user industry concentration, thereby entailing greater stability to its revenue and profitability
- Significant improvement in its capacity utilization along with TOI more than Rs.180 crore and PBILDT margin above 20% on a sustained basis
- Effective management of its working capital requirements leading to contraction in operating cycle to less than 120 days on sustained basis leading to improvement in its liquidity
- Improvement in debt coverage indicators while maintaining its moderate capital structure

#### Negative Factors

- Decline in scale of operations with TOI going below Rs.100 crore along with PBILDT margin below 12% on a sustained basis
- Major debt funded capex and/or increase in working capital intensity leading to deterioration of its overall gearing to more than 1x on a sustained basis
- Elongation in operating cycle beyond 160 days on a sustained basis impacting its liquidity

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***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. Mr. Piyush Tamboli, Chairman & Managing Director, has vast experience in the castings and auto components industry which is evident from the satisfactory operations of IPCL over more than four decades through various economic cycles. IPCL has well established manufacturing facility located in Bhavnagar, Gujarat with total casting capacity of 2,000 MTPA (including 15 MTPA for vacuum castings) as on March 31, 2021. IPCL uses state-of-the-art automated equipments to manufacture variety of castings for automobile, pumps, electrical & instrumentation and other general engineering industries. In recent past it has concluded large size capex to expand its operations for catering to defence,

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

medical and other sectors to reduce its dependence on auto sector. Also, it has recently started executing orders for the defence sector.

***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., Tata Motors Ltd. and Royal Enfield Motors. IPCL caters to substantial portion of the total requirement of most its key automobile clients for the critical components of engine & transmission system. 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.

***Substantial improvement in performance during H2FY21 on the back of good demand from automobile industry which is expected to be sustained in the medium-term***

With revival in demand during H2FY21, IPCL registered ~10% y-o-y growth in TOI to Rs.104.93 crore during FY21 driven by growth in exports along with good demand from domestic automobile industry during H2FY21 underpinned by TOI of Rs.71.11 during H2FY21. IPCL's PBILDT margin remained largely stable at 12.44% during FY21 (PY: 12.58%), despite operating losses incurred during H1FY21, on account of healthy PBILDT margin of 18.79% during H2FY21 aided by improved capacity utilization. IPCL reported healthy GCA of Rs.10.22 crore in H2FY21 vis-à-vis cash loss of Rs.3.08 crore in H1FY21; resulting in improvement in debt coverage indicators marked by interest coverage of 4.86x (2.20x during FY20) and TD/GCA of 2.92x (9.34x during FY20) during H2FY21. The improvement in its TOI & operating profitability is expected to be sustained during FY22 in-spite of second wave of Covid pandemic.

***Moderate capital structure***

Capital structure of IPCL though deteriorated over a period of time stood moderate marked by its overall gearing of 0.91 times as on March 31, 2021 vis-à-vis 0.81 times as on March 31, 2020.

***Liquidity: Adequate***

During last four years ended FY21, IPCL incurred total capex of ~Rs.64 crore towards setting up of new building, CNC machineries and robotic system to increase process automation which was funded through mix of term loans and internal accruals. Consequently, liquidity profile of IPCL had moderated. IPCL's liquidity got stretched amidst covid pandemic on the back of substantial decline in its TOI during Q1FY21 leading to average ~95% utilization of its fund-based working capital limit during December 2020. Moratorium availed on its term loan instalments and interest on working capital facilities from March 1, 2020 till August 31, 2020 as a COVID relief measure provided some cushion to its liquidity. IPCL's liquidity improved from Q4FY21 onwards, marked by average 80% utilization of its fund-based limits during April 2021, due to improved performance in H2FY21 along-with availment of guaranteed emergency credit limit of Rs.10.62 crore. Its current ratio & quick ratio also improved to 1.02x & 0.59x respectively as on March 31, 2021 (0.93x & 0.47x as on March 31, 2020). Its cash accruals are expected to be sufficient vis-à-vis term debt repayment obligations along with limited capital expenditure requirements in the medium term.

***Key Rating Weaknesses***

***Modest scale of operations***

In-spite of having a long standing presence in the business, scale of operations of IPCL has remained modest marked by TOI of Rs.104.93 crore in FY21 which restricts its financial flexibility to a large extent.

***High customer and end-user industry concentration***

IPCL supplies majority of its castings to the automobile industry as reflected from around 85% of its total sales to auto industry during FY21 leading to significant end-user industry concentration risk. Also, IPCL primarily operates in the domestic market which constituted around 92% of total sales during FY21, which makes it vulnerable to slowdown in demand from the cyclical domestic automobile industry. Gradually it is increasing its exports marked by total exports of Rs.7.96 crore in FY21 vis-à-vis Rs.1.99 crore in FY20. Moreover, top five customers of IPCL constituted around 54% of its total sales during FY21, exhibiting moderate customer concentration risk, wherein IPCL has relatively lower bargaining power vis-à-vis its larger size customers.

***Exposure to raw material price volatility and high 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.

During FY21, out of total cost of sales of IPCL, nearly 24% comprises of stores whereas nearly 28% comprises of job work charges which reflects very 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; impacted by second wave of covid pandemic after witnessing gradual revival in demand during H2FY21 post the initial COVID induced lockdown***

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. During FY21, all auto segments except tractors, registered a y-o-y decline in sales volume at retail level, marked by y-o-y decline of 34% in two wheelers, 65.7% in three wheelers, 12% in passenger vehicle and 51% in commercial vehicle. Export volumes also witnessed y-o-y decline marked by decline of 38.9% in passenger vehicle, 6.9% in two wheelers and 21.7% in three wheelers. Sales volume across segments were pushed by multiple years led by transition from BS-4 to BS-6, covid-19 induced nationwide and state-specific lockdowns and weak consumer sentiments during H1FY21. However, Q3FY21 witnessed a turnaround in the industry as its wholesale as well as retail volumes started gaining momentum, owing to the pent up demand, festive and wedding season. Just as the industry was on the path of recovery, it faced new impediment in the form of high fuel prices and price hikes by automobile OEMs during Q4FY21. Later, second covid wave pushed the Indian auto industry again in the slow lane, as sales volume for all automobile segments for month of April & May 2021 registered double digit decline on m-o-m basis at wholesale level. Recovery of automobile industry would depend on the pace of vaccination and faster containment of pandemic in India as well as globally.

**Analytical approach: Standalone**

**Applicable Criteria**

**Criteria on assigning Outlook and Credit Watch to Credit Ratings**

**CARE's Policy of Default Recognition**

**Rating Methodology - Manufacturing Companies**

**Rating Methodology - Auto Ancillary Companies**

**Financial Ratios – Non-Financial Sector**

**Criteria for Short Term Instruments**

**Liquidity Analysis of Non-Financial Sector Entities**

**About the Company**

Incorporated in April 1975, Investment & Precision Castings Ltd. (IPCL) 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 original equipment manufacturer (OEM) for some of the leading domestic automobile manufacturers. During FY18, IPCL also commenced manufacturing of vacuum castings which find application across industries like aerospace, defense and medical implants. IPCL had an installed capacity of 2,000 metric tonnes per annum (MTPA) for manufacturing of investment & vacuum castings as on March 31, 2021 at its plant located at Bhavnagar, Gujarat.

<b>Brief Financials (Rs. Crore)</b>	<b>FY20 (A)</b>	<b># FY21 (A)</b>
Total operating income (TOI)	95.76	104.93
PBILDT	12.04	13.05
PAT	(0.67)	0.48
Overall gearing (times)	0.81	0.91
Interest coverage (times)	1.84	2.20

A: Audited, #: Abridged audited results published on the stock exchange

**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 instrument/facility:** Not Applicable

**Complexity level of various instruments rated for this company:** Please refer Annexure 3

**Annexure-1: Details of Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	November 2026	22.45	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	39.60	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A3

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	22.45	CARE BBB-; Stable	-	1)CARE BB+; Positive (10-Feb-21) 2)CARE BB+; Stable (07-Sep-20)	1)CARE BBB-; Negative (27-Jan-20) 2)CARE BBB; Negative (21-Aug-19) 3)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (03-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	39.60	CARE BBB-; Stable	-	1)CARE BB+; Positive (10-Feb-21) 2)CARE BB+; Stable (07-Sep-20)	1)CARE BBB-; Negative (27-Jan-20) 2)CARE BBB; Negative (21-Aug-19) 3)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (03-Apr-18)
3.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3	-	1)CARE A4+ (10-Feb-21) 2)CARE A4+ (07-Sep-20)	1)CARE A3 (27-Jan-20) 2)CARE A3+ (21-Aug-19) 3)CARE A3+ (01-Apr-19)	1)CARE A3+ (03-Apr-18)

**Annexure-3: Complexity Level of various facilities rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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