

Magna Electro Castings Limited

December 27, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	16.25	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	26.25 (Rs. Twenty-Six Crore and Twenty-Five Lakhs Only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Magna Electro Castings Limited (MECL) continue to derive strength from the vast experience of the promoters, long operational track record of more than two decades in casting business with well-established manufacturing facilities and healthy capital structure.

The ratings are, however, constrained by modest scale of operations with relatively lower capacity utilization, exposure of margins to volatile raw material prices & foreign exchange risk and intensely competitive & fragmented nature of industry.

Rating Sensitivities

Positive Factors

- Consistent improvement in the scale of operations through diversified client base
- Sustainable improvement in the operating margins above 15%

Negative Factors

- Any large-sized debt-funded capex leading to deterioration in capital structure with overall gearing levels greater than 0.80x.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter

MECL was promoted in 1990 by Mr N. Krishna Samaraj, an Engineer and Management graduate by qualification. He has more than two decades of experience in the casting industry. He is the ex-president of "The Institute of Indian Foundry men" and currently takes care of the overall management of the company. He is assisted by a well-qualified and experienced team of professionals to take care of the day-to-day operations of the company.

Long and successful operational track record of over two decades catering to both domestic and export markets

MECL has a long track record of presence for over two decades in the industry. MECL caters to different industrial requirements including auto, valves, transmission, locomotives, etc, and each of these contributes around 10%-12% of its total income. The company has a long-standing presence in ductile iron casting segment. The company caters to both domestic and export market with export sales contributing to about 49% of the revenue in FY21 (refers to the period April 1 to March 31; PY: 45%).

Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration. The company's manufacturing facility, spread over 10 acres of land has in-house facilities such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. Some part of the machining is also done from its sister concern 'Samrajyaa and Company' located near MECL's unit.

Healthy capital structure

MECL stood debt free with minimal utilisation of its working capital limits through the year in FY21. The Company has in FY21 bought back 3,50,096 fully paid-up equity shares resulting in an outflow of Rs.5.7 cr. Consequent to the buy back the, the shareholding percentage of promoters effectively increased from 48.45% to 52.58%

Key Rating weakness

Moderate scale of operations with relatively lower capacity utilization

The casting industry has many large players with higher capacities and large scale of integrated operations which keeps the scale of operations of MECL modest. The operating income of the company has remained moderate in the range of Rs. 95-100 crore the past two years on the back a general slow-down in the auto industry and other related sectors resulting in the decline in the orders which was further aggravated by the outbreak of COVID19. MECL has been operating at moderate capacity utilization levels for the past two years at 55-60% ended FY21.

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

Profit margins exposed to volatility in raw material prices

The primary raw materials used for the ductile iron casting include steel scrap and ferro alloys, whose prices are inherently volatile and driven largely by global as well as local demand and supply conditions. Hence any volatility in the prices of these materials may impact the profitability of MECL. The prices of steel scrap have shot up by almost 35-40% in the current year leading to a pressure on the company's margins. Due to the present market scenario, the company is also not able to fully pass on the price increase to its customers. Furthermore, with about 49% of the income from export markets, the company's realizations are also exposed to risk on foreign exchange rates, although the company takes hedging on a case-to-case basis.

Highly competitive nature of industry

The demand for 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 of casting related products with presence of more casting units. India's low-cost manufacturing and local demand has made it a profitable proposition. The presence of international players in the market has led to a significant up-gradation in technology leading to better solutions for end users. The automobile & 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 unorganized sector capturing some share in the market leading to price competition.

Liquidity- Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis nil repayment obligations and moderate cash balance of Rs.14.88 Crores. MECL has a sanctioned limit of Rs.20 crore of working capital to facilitate its operations. Its liquidity position continues to remain comfortable with only 8% working capital utilizations in past 12 months. The company has not used a major part of its working capital facilities in light of favourable liquidity position. The current ratio stood comfortable at 3.28x as on March 31, 2021. The operations of MECL remain working capital intensive in nature. Though major portion of sales is on credit period for 2-3 months period, bill discounting facility is used for easing liquidity pressure. The Company normally collects its bills from 60 – 75 days for overseas clients and around 60 days for the domestic clients.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and credit watch to Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for Manufacturing Companies](#)

[CARE's methodology for Auto Ancillary Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

MECL is a public limited company incorporated in the year 1990 by Mr N. Krishna Samaraj who has more than two decades of business experience. MECL is engaged in the business of manufacturing & supplying ductile and grey iron castings in the weight range of 300 gram to maximum of 2000 kilogram. As on March 31, 2020, the unit had an installed capacity of 12000 MT. MECL also produces fully machined components utilizing its in-house CNC machine shop and other facilities as well. MECL caters to various end-user industries like auto, locomotives, valve, windmills, transmission, etc. The company has windmills with aggregate capacity of 4 MW for captive consumption purposes.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)	H1FY22(UA)
Total operating income	98.44	98.98	60.70
PBILDT	12.94	11.21	7.98
PAT	6.67	5.21	4.21
Overall gearing (times)	0.00	0.00	0.03
Interest coverage (times)	112.54	224.12	88.66

A: Audited; UA: Unaudited

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 instrument/ facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB+; Stable
Fund-based - ST-FBN / FBP		-	-	-	10.00	CARE A2
Non-fund-based - ST-BG/LC		-	-	-	6.25	CARE A2

LT- Long term; ST- Short term

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-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-21)	1)CARE BBB+; Stable (03-Feb-20)	1)CARE BBB+; Stable (06-Dec-18)
2	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (04-Jan-21)	1)CARE A2 (03-Feb-20)	1)CARE A2 (06-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	-	1)CARE A2 (04-Jan-21)	1)CARE A2 (03-Feb-20)	1)CARE A2 (06-Dec-18)

LT- Long term; ST- Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-FBN / FBP	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details

To view the lender wise details of bank facilities please [click here](#)

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.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications

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