

Welcast Steels Limited

July 30, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two); and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable (Triple B Plus; Outlook: Stable); and Withdrawn
Total Bank Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed and simultaneously withdrawn the outstanding ratings of 'CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)' assigned to the bank facilities of Welcast Steels Limited (WSL) with immediate effect. The above action has been taken at the request of WSL and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE.

The reaffirmation of ratings of WSL, prior to withdrawal, continue to derive strength from its strong parentage being a majority-owned subsidiary of AIA Engineering Limited (AIA) which has long track record of operations in the same line of business along with its operational linkage with AIA which procures majority of the production of WSL. The ratings further derive strength from WSL's experienced management and its comfortable leverage.

The ratings strength, however, tempered by its recent attempt to close down its manufacturing operations citing economically unviable operations, inherently low profitability margins of WSL, its exposure to end use industry risks as some of them exhibit cyclical along-with decline in its scale of operations and net loss incurred during FY21 as a result of lower capacity utilization.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and operational linkage with the parent which operates in the same line of business

AIA, the parent company of WSL, is one of the leading players in High Chrome Media Internals (HCMI) industry. Over the years, AIA has grown multi-fold and it has a robust financial risk profile and healthy liquidity supported by large cash accruals & comfortable capital structure. WSL derives significant strength by virtue of being a subsidiary of AIA and having operational linkages with it. WSL also derives synergetic benefits in terms of technical know-how, R&D, marketing, etc. from AIA apart from benefitting in terms of better sourcing terms for its raw materials from the common suppliers of AIA.

The financial performance of AIA during FY21 remained healthy and largely stable with total operating income of Rs. 3053 crore (FY20: Rs. 3039 crore) along with net profit of Rs. 566 crore (FY20: Rs. 590 crore). Moreover, AIA has a strong net worth base of Rs. 4253 crore as on March 31, 2021.

Captive off-take agreement with the parent

WSL has entered into a contract manufacturing agreement with AIA wherein it is agreed upon that WSL shall manufacture grinding media balls for AIA according to the purchase order placed from time to time and as per technical specifications provided by AIA. This agreement significantly reduces saleability risk of WSL and minimizes the counter party credit risk, considering the strong credit profile of AIA.

Experienced management with long track record of operations

WSL has almost four decades of successful track record in manufacturing of high chrome grinding media balls. Mr. Mohan Rao VVR, presently serving as chief executive officer (CEO) of WSL holds B.E. and MBA degree. He has vast experience of 51 years in manufacturing industry. Mr. Bhadrish K. Shah, presently serving as Non-executive Director of WSL and Managing Director of AIA holds B. Tech in Metallurgy from IIT, Kanpur. He has vast experience of over 48 years in the manufacturing and design of various kinds of value-added product, impact-abrasion & corrosion resistant high chrome castings.

Continued comfortable leverage albeit and moderation in debt coverage indicators

As on March 31, 2021 WSL had a comfortable overall gearing of 0.11 times. However, on account of moderation in operating profitability and net loss reported in FY21, the debt coverage indicators moderated with PBILDT interest coverage of 0.98x during FY21 (2.81x during FY20).

High entry barriers

HCMI industry can be categorized as an industry with customer stickiness, technical expertise and limited competition. The customer stickiness in HCMI industry is high due to its vital role in the grinding process of various end user industries whereby their failure or inefficiency can result in major loss of production. Secondly, the technical knowhow is critical for HCMI manufacturers unlike forged media balls and acts as entry barrier as industry players require high expertise in metallurgy and process technology which limits the competition.

Major part of HCMI demand is generated as replacement demand. Nearly ~80-85% of the total global demand of HCMI is in nature of replacement demand. Accordingly, even though there is slowdown in new capacity additions in end user industries, replacement demand provides a cushion for HCMI manufacturers.

Key Rating Weaknesses**Recent attempt to close down its manufacturing operations citing economically unviable operations**

The Board of Directors of WSL in their Board meeting held on August 31, 2020 announced their decision to permanently close down its sole manufacturing operations at its plant in Bengaluru after giving 60 days' notice under the Industrial Dispute Act, 1947. The reason for closing down of the plant as mentioned by the company was that since last year, there has been consistent decline in orders and consequent fall in production. Company had also informed that they do not have sufficient orders in hand and the available orders were also not economically viable. Also, there does not appear to be any chance of getting economically viable orders to be given to the workmen. WSL's management had further articulated that the operations of the company will be gradually run-down over next two months and all its obligations and liabilities shall be met in a timely manner.

However, in stark contrast to its earlier decision, the Board of Directors of WSL in their Board meeting held on November 02, 2020, in the hope of revival in the economy based on current situation, decided to continue operations at its sole plant at Bengaluru and withdraw its earlier closure notices filed with the concerned authorities. Also, comfort is derived from the fact that AIA's management has reiterated its stance to continue to provide all need-based support to WSL in a timely manner as it is its majority-owned subsidiary.

Inherently low profitability margins along with decline in scale of operations and net losses incurred during FY21

WSL has acted as a production centre wherein AIA off-takes almost entire production of WSL. Thereby, WSL was highly dependent on its parent w.r.t its sales, technical know-how, operational and financial support resulting in negligible operational risk; albeit this arrangement also resulted in WSL earning inherently low profitability margins and its sales being dependent upon volume of order flow from its parent.

During FY21, total operating income (TOI) of WSL declined by 35% on y-o-y basis to Rs.98 crore. In line, the PBILDT margin also moderated to 0.37% while it reported net loss of Rs.1.82 crore as the production volumes of WSL were impacted in H1FY21 due to Covid19 induced lockdown leading to disruption of operations in India as well as in overseas markets.

Exposure to end use industry risks some of which exhibit cyclicity

HCMI balls manufactured by WSL have applications mainly in three user industries viz. Mining, Thermal power generation & Cement. Accordingly, WSL is exposed to the risks associated with these user industries. Out of these three user industries, demand from mining industry normally outpaces the demand from other two industries. However, mining industry is also sensitive to the shifting business cycles, including changes in the general economy, interest rates and encounter seasonal changes in the demand and supply conditions in the market. Even cement sector exhibits cyclicity in demand linked to overall infrastructure scenario.

Analytical approach: Standalone along with factoring linkages with its parent company i.e. AIA Engineering Limited (AIA).

WSL has a contract manufacturing agreement with AIA, wherein AIA generally procures significant proportion of WSL's production. AIA also provides need based financial, technical and operational support to WSL as it is its majority-owned subsidiary.

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the company

Incorporated in 1972, WSL is a High Chrome Grinding Media manufacturer. In 1996, AIA Engineering Limited (AIA) bought 41.32% stake in WSL and since then AIA had gradually increased its holding in WSL. As on June 30, 2021, AIA holds 74.85% equity stake in WSL, with balance equity stake held by public. High Chrome Grinding Media is used in various industries for crushing and grinding operations. These grinding balls are impact, abrasion and corrosion resistant, which makes it suitable for crushing large quantity mineral ore, clinker/lime stone and coal in mining, cement and thermal power generation sector respectively. WSL has a single manufacturing facility located at Bengaluru having total installed capacity of 42,000 Metric Tonne Per Annum (MTPA). WSL has capability of manufacturing various grades of grinding balls in various sizes ranging 40-90 mm diameter based on the customer's requirements.

AIA is an Ahmedabad based manufacturing company, which operates in the same line of business and manufactures High Chrome Grinding Media, Mill Liners and Diaphragms, etc. collectively known as High Chrome Mill Internals (HCMI). AIA has total eight manufacturing units with cumulative capacity of 3,90,000 MTPA and it is being expanded to 4,40,000 MTPA. AIA also has nine marketing subsidiaries overseas and provides customer centric solution across the geographies.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	150.33	98.38
PBILDT	1.22	0.37
PAT	-0.26	-1.82
Overall gearing (times)	0.12	0.11
PBIDLT Interest coverage (times)	2.81	0.98

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/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-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn

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	-	-	-	1)CARE BBB+; Stable (10-Nov-20) 2)CARE BBB+ (CWD) (09-Sep-20) 3)CARE A+; Stable (06-Aug-20)	1)CARE A+; Stable (04-Oct-19) 2)CARE A+; Stable (15-Apr-19)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)CARE BBB+; Stable/ CARE A2 (10-Nov-20) 2)CARE BBB+/ CARE A2 (CWD) (09-Sep-20) 3)CARE A+; Stable/ CARE A1+ (06-Aug-20)	1)CARE A+; Stable/ CARE A1+ (04-Oct-19) 2)CARE A+; Stable / CARE A1+ (15-Apr-19)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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