

Magna Electro Castings Limited

January 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	10.00	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	16.25	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and 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 track record of operations of over three decades in casting business, well-established manufacturing facilities, healthy capital structure and debt coverage indicators with Nil long-term borrowings.

The ratings are, however, constrained by moderate scale of operations albeit improved during FY22 (refers to the period April 1 to March 31) 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 the scale of operations with income above ₹200 crore 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.

Analytical approach: Standalone

Key strengths

Vast experience of the promoters and management

MECL was promoted in 1990 by N. Krishna Samaraj, an Engineer and Management graduate by qualification. He has more than 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 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 track record of operations of over three decades in casting business

MECL has a long track record of presence for over three decades in the industry. The company caters to different sectors, such as automotive, locomotive, windmill, transmission, valves industries with no sector contributing to more than 20% of the revenue. In automobiles, the company mainly supplies to tractor manufacturing companies. MECL also has niche products, such as complicated fabricating, prototyping, machining, and heat treatment. The company caters to both domestic and export markets with export sales contributing to 55% in FY22 (PY: 49%).

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

The capital structure of MECL stood healthy with overall gearing of 0.06x as on March 31, 2022 (PY: NIL). The company is term debt and the working capital utilisation is also minimal. The total debt / gross cash accruals (TD/GCA) ratio also stood comfortable at 0.42x as on March 31, 2022 (PY: 0.01x). The interest coverage stood healthy at 42.59% during FY22.

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

Key weaknesses

Moderate scale of operations with relatively lower capacity utilisation

Despite the long track record of operations and relationship with a wide array of clients across industries, the size of operations remained relatively modest marked by operating income of the company at ₹135.84 crore in FY22, albeit improved from ₹98.10 crore in FY21, backed by revival in demand post COVID-19 pandemic. The capacity utilisation levels have been moderate in the range of 55% to 65% for the past three years ended FY22.

Margins exposed to volatile raw material prices and foreign exchange risk

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 50% in Q4FY22 leading to a pressure on the company's margins. Furthermore, CARE Ratings notes that with about 55% of the income from export markets, the company's realisations are also exposed to the risk on volatility in foreign exchange rates.

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 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 liquidity of the company is adequate with NIL long-term debt repayments against accruals of ₹11.94 crore in FY22 and free cash balance of ₹14.43 crore as on March 31, 2022. MECL has working capital limit of ₹10 crore and the utilisation stood low at 17.83% during the 12 months ended November 2022. The current ratio of the company stood comfortable at 2.70x as on March 31, 2022. The company gives a credit period of 60-75 days to its foreign clients while it gives a credit period of around 60 days to its domestic customers.

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](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

About the company

Magna Electro Castings Limited (MECL) is a public limited company listed in BSE and was incorporated in the year 1990 by 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 grams to maximum of 2000 kilograms. MECL also produces fully-machined components utilising 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 and met 70% of the power requirement of the unit during the year. As on March 31, 2022, MECL had an installed capacity of 12000 MT for production of ductile iron castings.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	98.10	135.84	89.19
PBILDT	10.32	13.63	17.18
PAT	5.18	7.73	10.56
Overall gearing (times)	-	0.06	-
Interest coverage (times)	200.02	42.77	78.09

A: Audited; UA: Un-audited

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-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

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-Cash credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Dec-21)	1)CARE BBB+; Stable (04-Jan-21)	1)CARE BBB+; Stable (03-Feb-20)
2	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (27-Dec-21)	1)CARE A2 (04-Jan-21)	1)CARE A2 (03-Feb-20)
3	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	-	1)CARE A2 (27-Dec-21)	1)CARE A2 (04-Jan-21)	1)CARE A2 (03-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: 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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