Electrosteel Castings limited

October 06, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	1553.69 (reduced from 2015.42)	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Reaffirmed**
Long/Short-term Bank Facilities	909 (reduced from 1000)	**CARE BBB+; Negative/CARE A2 (Triple B Plus; Outlook: Negative /A Two)**	**Reaffirmed**
Total	**2,462.69 (Rupees Two Thousand Four Hundred Sixty Two crore and Sixty Nine lakh)**		
Non-convertible debenture (Series IV)	**50.00**	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Reaffirmed**
Commercial Paper (CP) issue*	**-**	**-**	**Withdrawn^**
Commercial Paper (CP) issue$	**-**	**-**	**Withdrawn^**

Details of instruments/facilities in Annexure-1
(*) carved out of sanctioned working capital limits of the company
($) the aggregate of CP and other working capital borrowings should be within the sanctioned working capital limits of the company
(^) The company has surrendered the aforementioned CP issue and there is no amount outstanding under the said issue.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Electrosteel Castings Limited (ECL) takes into account the company's long and satisfactory track record of operations, established position in the domestic & international ductile pipe segment, satisfactory capacity utilisation and satisfactory order-book position. However, the ratings are tempered by volatility in prices of inputs, weak debt coverage indicators, working capital intensive nature of operations and exposure of the company to foreign exchange fluctuations.

Going forward, ability of the company to improve its capital structure, adequate and timely receipt of funds from the deallocated captive coal block and increase/decrease in exposure to group entities remains key rating sensitivities.

Outlook: **Negative**

Outlook is negative on account of delay in recovery of funds blocked in coal block deallocation and investments in Electrosteel Steels ltd which has led to weak debt coverage indicators. The outlook may be revised to stable in event of receipt of funds through coal block or/and divestments of investments within a stipulated time.

Detailed description of key rating drivers

Key rating strengths

Experienced promoters with a long track record of operations

Electrosteel group, a leading industrial house of Eastern India, is engaged in production of DI pipes and providing techno-economic solutions for water transportation & sewerage management. ECL, the flagship company of the group has a track record of more than five decades with the company having first commenced its operations in May, 1959 with the manufacturing of CI pipes and gradually diversifying into production of Ductile Iron (DI) pipes over the years.

Established position of the group in the DI pipe segment

ECL along with its associate SPL has an established position in the domestic and international DI pipe market with an aggregate DI pipe production capacity of 5,80,000 tpa *(ECL – 2,80,000 tonnes and SPL – 3,00,000 tonnes)* with major competitor being JSW pipes with a capacity of 5,00,000 tpa. While ECL with its manufacturing facilities caters to the Eastern and Northern market, SPL with its manufacturing facilities in Andhra Pradesh focuses on the Southern and Western region thereby enjoying marketing synergies.

Strong order book position providing revenue visibility

As on August 31, 2017, ECL had an order book of around Rs.1,152.18 crore (~Rs.1021.73 crore as on August 31, 2016) which is to be executed over the next six to seven months thereby providing revenue visibility. ECL's clientele includes water & sewerage divisions of various State Governments, local municipal bodies and construction companies. A portion of the Govt. orders have inbuilt 'price escalation clause' for movement in prices of pig iron (the major constituent of the final product) which provides shield against the rise in the prices of the inputs.

Satisfactory Capacity Utilisation

The capacity utilization of the company has consistently remained at about 100% in the last few years on the back of the high inflow of the orders for DI pipe. Further, efficient management of resources led to an achievement of higher production levels over the years. The sales of DI and CI Pipes contributed about 83.52% to the total revenue of the company in FY17. Apart from selling DI and CI Pipes, the company is also involved in selling DI fittings and in engineering, procurement and construction (EPC) projects on a turnkey basis, selling of molten metal/pig iron over and above its captive requirement, trading of coal & other products which contributed about 16.48% to the total revenue of the company in FY17.

<u>Key rating weakness</u>

Volatility in input price

Raw material consumption forms the single largest cost component for ECL. It formed about ~47.82% of cost of sales in FY17. Upon de-allocation of the coal mines and further delay in the receipt of the environmental clearance for the iron ore mines, the company has to resort to the open market for meeting its requirement of the key inputs (*iron ore and coal*) at the prevailing market prices. Hence, any adverse movement in raw material price without any corresponding movement in finished good price might affect the profitability of the company. The prices of finished goods generally move in tandem with that of raw materials though with a time lag, which exposes the company to risk arising on account of volatility in the raw material prices.

Low debt coverage indicators

ECL's overall revenue decline by around 9.11% during FY17 mainly on account of lower exports and realisation. However, Low prices of coking coal in H1FY17 led to an improvement in the overall PBILDT margins which improved from 14.52% in FY16 to 15.50% in FY17. However, high interest and depreciation expenses curbed down the overall profitability, resultantly, PAT stood at 4.14% during FY17 as against 2.84% during FY16.

As on March 31, 2017, ECL's overall gearing stood at 0.76x as against 0.83x as on March 31, 2016. In absolute terms, Gross Cash Accruals (GCA) improved marginally from Rs.115.50 crore during FY16 to Rs.140.15 crore during FY17. However, the ratio of term debt to GCA stood high at 11.07x. Debt coverage indicators of the company are weak considering high debt repayments in the near future.

In Q1FY18, the company reported a PAT of Rs.0.22 crore (Rs.10.07 crore in Q1FY17) on a total income of Rs.498.81 crore (Rs.437.41 crore in Q1FY17)

Funds blocked in coal block

ECL's captive coal block at Prabatpur, Jharkhand was deallocated in September 2014 and was handed over to Bharat Coking Coal Limited as per the directions from Coal India Limited. On the coal block, the company has claimed around Rs.1,531.76 crore (including interest charges). Against the said expenditure, the company has received part compensation of Rs.83.12 crore (approx.) till September 2017. Going forward, the timely recovery of the same would be key a rating sensitivity.

Exposure to group entities

ECL's fund based exposure to the subsidiary/associate companies in the form of investments and loans & advances (including security deposits) as on March 31, 2017 was Rs.1,363.21 crore accounting for ~47.67% of the net worth as compared to exposure of Rs.1,373.42 crore as on March 31, 2016 accounting for about ~49.08% of its tangible net worth. This apart, the company also has non-fund exposure in the form of corporate guarantee, Standby Letter of Credit, extended towards its subsidiaries to an extent of 112.26 crore (reduced from 173.68 crore in FY16). Of the total fund based exposure, the major exposure (fair value of Rs.605.92 crore) is in Electrosteel Steels Limited [(ESL) with 45.23% stake;]. Total exposure of ECL in ESL amounted to Rs.814.54 crore comprising of Rs.605.92 crore as investments in the form of equity amounted and Rs.208.62 crore in the form of loans and advances as on March 31, 2017.

Working capital intensive nature of operations

The business of the company is working capital intensive in nature on account of higher collection period and higher inventory days. The high collection period is on account of the customer's profile mainly being Government bodies, where the payment terms remains stretched. The company has to extend higher credit terms to the export customer and as the company derives major portion of the sales through exports, the collection period also remains stretched. Further, export sales also involves higher collection period (as there is considerable time gap between despatch and final acceptance). The collection period stood at 124 days in FY17. Furthermore, inventory period is high as the company has to maintain higher level of raw materials for ensuring uninterrupted production and the same remained at 101 days in FY17. The operating cycle stood at 168 days in FY17 as compared to 175 days in FY16.

Exposure towards foreign exchange risk
ECL has forex exposure in the form of forex payable (for import of coking coal & coke), foreign currency borrowings (in the form of External Commerical borrowings for funding the capex programme) and forex receivable (for export of DI Pipes and Fittings). Although the company hedges its entire foreign currency loan repayable over the next one year through forward cover and options. Furthermore while the exports of the final goods and import of the raw materials provide a natural hedge to the company and mitigate the foreign exchange fluctuation risk to a certain extent, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement.

Analytical approach: Standalone.

Applicable criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Policy on Withdrawal of ratings

About the company
Incorporated in November 1955 and under the management of Umang Kejriwal & family of Kolkata, the current promoters, since 1965, Electrosteel Castings Limited (ECL) commenced its manufacturing activity in May, 1959 with the commissioning of Cast Iron (CI) pipes manufacturing unit. Currently, the company is operating DI Pipe facility with an installed capacity of 2,80,000 tonnes per annum; Pig Iron facility of 2,50,000 tonnes per annum and LAMC facility of 2,95,000 tonnes per annum with the manufacturing facilities spread across four locations in India.
In Q1FY18, the company reported a PAT of Rs.0.22 crore (Rs.10.07 crore in Q1FY17) on a total income of Rs.498.81 crore (Rs.437.41 crore in Q1FY17)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,975.66	1,795.67
PBILDT	286.88	278.29
PAT	55.87	77.28
Overall gearing (times)	0.83	0.76
Interest coverage (times)	1.99	1.56

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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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	-	-	-	540.00	CARE BBB+; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	789.00	CARE BBB+; Negative / CARE A2
Non-fund-based - LT/ ST-BG/LC	-	-	-	120.00	CARE BBB+; Negative / CARE A2
Term Loan-Long Term	-	-	September 2024	1013.69	CARE BBB+; Negative
Debentures-Non Convertible Debentures	July 05, 2013	11%	July 05, 2018	50.00	CARE BBB+; Negative
Commercial Paper-Commercial Paper (Carved out)	-	-	-	0.00	Withdrawn
Commercial Paper-Commercial Paper (Carved out)	-	-	-	0.00	Withdrawn
Commercial Paper-Commercial Paper (Standalone)	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	1013.69	CARE BBB+; Negative	-	1)CARE BBB+ (28-Oct-16) 2)CARE A (15-Apr-16)	1)CARE A (09-Oct-15)	1)CARE AA- (19-Feb-15)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A2 (28-Oct-16)	1)CARE A1 (09-Oct-15)	1)CARE A1+ (19-Feb-15)
3.	Fund-based - LT-Cash Credit	LT	540.00	CARE BBB+; Negative	-	1)CARE BBB+ (28-Oct-16) 2)CARE A (15-Apr-16)	1)CARE A (09-Oct-15)	1)CARE AA- (19-Feb-15)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	789.00	CARE BBB+; Negative /	-	1)CARE BBB+ / CARE A2 (28-Oct-16)	1)CARE A / CARE A1 (09-Oct-15)	1)CARE AA- / CARE A1+ (19-Feb-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
				CARE A2		2)CARE A / CARE A1 (15-Apr-16)		
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	120.00	CARE BBB+; Negative / CARE A2	-	1)CARE BBB+ / CARE A2 (28-Oct-16) 2)CARE A / CARE A1 (15-Apr-16)	1)CARE A / CARE A1 (09-Oct-15)	1)CARE AA- / CARE A1+ (19-Feb-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (28-Oct-16)	1)CARE A (09-Oct-15)	1)CARE AA- (19-Feb-15)
7.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)CARE A3+ (28-Oct-16)	1)CARE A2+ (09-Oct-15)	1)CARE A1+ (19-Feb-15)
8.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Negative	-	1)CARE BBB+ (28-Oct-16)	1)CARE A (09-Oct-15)	1)CARE AA- (19-Feb-15)
9.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A2 (28-Oct-16)	1)CARE A1 (09-Oct-15)	1)CARE A1+ (19-Feb-15)
10.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (19-Feb-15)

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