Electrosteel Castings Limited

October 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	1022.06 (reduced from 1487.51)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	850.00 (reduced from 877.50)	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable /A Two)**	**Reaffirmed**
Total	**1872.06 (Rs One thousand eight hundred and seventy two crore and six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Electrosteel Castings Ltd (ECL) continue to take into account the long track record of operations and established position in the domestic & international ductile iron pipe segment, satisfactory capacity utilization, improved financial performance in FY19 (refers to April 1 and March 31) and Q1FY20 and stable capital structure.

The ratings also factor in the expected improvement in debt service coverage indicator over the medium term post refinancing of term debt, however, debt coverage indicator continue to be weak.

The ratings are tempered by volatility in prices of inputs, substantial funds blocked in coal blocks and exposure of the company to foreign exchange fluctuations.

Going forward timely disbursement of the balance refinancing loan, adequate and timely receipt of the funds from the de-allocated captive coal block and any major debt-laden capex are the key rating sensitivities.

Detailed description of key rating drivers

Key rating strengths

Long track record of operations and established position of the group in the DI pipe segment

ECL is the flagship company of the Electrosteel group and has a track record of six 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 as its main product.

ECL along with its associate Srikalahasthi Pipes Ltd (SPL; CARE AA-;Stable/CARE A1+) has an established position in the domestic DI pipe market with an aggregate DI pipe production capacity of 5,80,000 mtpa *(ECL – 2,80,000 mtpa and SPL – 3,00,000 mtpa)*. While ECL with its manufacturing facilities in West Bengal caters to the Eastern and Northern market, SPL (CARE AA-; Stable/CARE A1+) with its manufacturing facilities in Andhra Pradesh focuses on the Southern and Western region thereby the group enjoying market synergies. In addition to catering to the domestic market, ECL is also the largest exporter of DI pipes from India and 45% of its net sales are through exports.

ECL's exposure to its subsidiary/associate companies as on March 31, 2019 was ~36% of the net worth. However, out of the above majority was in the form of investment in SPL.

Satisfactory Capacity Utilization

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 capacity utilization of the DI pipe segment improved from 105% in FY18 to 109% in FY19.

Improved financial performance in FY19 and Q1Y20

Total operating income of ECL increased y-o-y by 19% in FY19 mainly on account of increase in realizations of pipes and higher sales of coke and DI pipe fittings. Despite increase in cost of raw materials, the PBILDT margin improved from 12.24% in FY18 to 16.27% in FY19. This was due to increase in share of exports in the DI pipe segment, which had higher margin. The interest cost for the company continued to be high largely due to loans taken for coal blocks which were later on de-allocated. The interest coverage however, improved from 1.22x in FY18 to 1.74x in FY19 due to better profitability.

In Q1FY20, the total operating income increased by 25% vis-à-vis that in Q1FY19, due to increase in sales volume and realizations of DI pipes in the quarter. The increase in realizations and volumes also led to an improvement in PBILDT margin from 14.35% in Q1FY19 to 17.22% in Q1FY20.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Stable capital structure with expected improvement in debt service coverage indicator post refinancing of term debt
The company's high net worth results in a comfortable overall gearing of 0.80x as on March 31, 2019, however, it is term debt heavy due to term loans taken in particular for the Parbatpur Coal block which was later on de-allocated. Adjusting the investment in coal block, the gearing as on Mar'19 would increase to 1.74x.In March 2019, the company received part disbursement of sanctioned term loan with which it has made payments/prepayments. Post balance disbursement of the term debt, the debt service coverage indicators are expected to improve in the medium term owing to long tenure and ballooning nature of the new term loans. However, the total debt/GCA continued to be weak at 10.27x as on March 31, 2019.

Key rating weakness
Volatility in input price
Raw material consumption forms the single largest cost component for ECL. 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, however, due to order based nature of the business there exists a time lag. This exposes the company to risk arising on account of volatility in the raw material prices.

Funds blocked in coal block
The Company had a captive coal block at Parbatpur, Jharkhand which was under advanced stage of implementation. However, as per the Supreme Court such coal block was de-allocated with effect from April 1, 2015 and the company has filed its claims for compensation for Rs.1531.76 crore. Against the said expenditure, the company has received interim payment of around Rs.84 crore. Further, in September 2018, the Delhi High court has directed the nominated authority to complete the valuation process to ascertain/validate the claim of Rs.1531.76 crore and forward it to Ministry of Coal for further action w.r.t disbursal within a given time frame. However, the company has challenged the amount of claim assessed by the nominated authority at the High Court. Going forward, the timely recovery of the same would be key a rating sensitivity.

Exposure towards foreign exchange risk
ECL has forex exposure in the form of forex payable (for import of coking coal), foreign currency borrowings (in the form of External Commercial borrowings, mainly for capex programme) and forex receivable (for export of DI Pipes and Fittings). The company hedges its entire foreign currency loan repayable over the next one year. Although 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.

Liquidity: Adequate
Balance disbursement of the sanctioned limit coupled with company's cash accruals are expected to be adequate to meet its debt repayment obligations in the medium term. Further, ECL has free cash, bank and liquid investments of Rs.62 crore as on June 30, 2019. The average utilization of its fund based limits was also moderate at 62% for the last 12 months ended June 2019.

Analytical approach: Standalone Approach.
Applicable criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

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 capacity of 2,50,000 tonnes per annum and LAMC facility of 2,25,000 tonnes per annum. The manufacturing capacities are at the four plants at Haldia, Khardah and Bansberia in West Bengal and Elavur in Tamil Nadu.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,021	2,404
PBILDT	247	391
Adjusted PAT	47	154
Reported PAT	47	-636
Overall gearing (times)	0.89	0.80
Interest coverage (times)	1.22	1.74

A: Audited, Note: Adjusted PAT is without considering the write down/write off in erstwhile associate Electro steel Steels Ltd as the same was already adjusted in the net worth.

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
Term Loan-Long Term	-	-	June 2025	482.06	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	540.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	789.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC	-	-	-	61.00	CARE BBB+; Stable / CARE A2

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	482.06	CARE BBB+; Stable	-	1)CARE BBB+; Stable (20-Nov-18)	1)CARE BBB+; Negative (06-Oct-17)	1)CARE BBB+ (28-Oct-16) 2)CARE A (15-Apr-16)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE A2 (28-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	540.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (20-Nov-18)	1)CARE BBB+; Negative (06-Oct-17)	1)CARE BBB+ (28-Oct-16) 2)CARE A (15-Apr-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	789.00	CARE BBB+;	-	1)CARE BBB+; Stable / CARE	1)CARE BBB+; Negative /	1)CARE BBB+ / CARE A2

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
				Stable / CARE A2		A2 (20-Nov-18)	CARE A2 (06-Oct-17)	(28-Oct-16) 2)CARE A / CARE A1 (15-Apr-16)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	61.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (20-Nov-18)	1)CARE BBB+; Negative / CARE A2 (06-Oct-17)	1)CARE BBB+ / CARE A2 (28-Oct-16) 2)CARE A / CARE A1 (15-Apr-16)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (28-Oct-16)
7.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE A3+ (28-Oct-16)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (20-Nov-18)	1)CARE BBB+; Negative (06-Oct-17)	1)CARE BBB+ (28-Oct-16)
9.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE A2 (28-Oct-16)

***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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