

Investment & Precision Castings Limited

April 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	63.23 (reduced from Rs.65.87 crore)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	4.00	CARE A3+ [A Three Plus]	Reaffirmed
Total Facilities	67.23 (Rupees Sixty Seven crore and Twenty Three lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities Investment & Precision Castings Ltd. (IPCL) continue to derive strength from the vast experience of IPCL's promoters in the investment castings business, its established manufacturing facilities and long-standing relationship with key customers. The ratings also positively factor in the volume driven growth in IPCL's total operating income (TOI) during FY18 as well as 9MFY19 with buoyancy in demand witnessed from its key end-user segment i.e. automobile industry, new customer addition during the period, substantial improvement in operating profit margin during FY18 on the back of higher capacity utilization resulting in better absorption of fixed costs and lower raw material cost incurred during the period albeit moderation in the same during 9MFY19 along with its comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of IPCL's concentrated revenue profile in terms of its customer base as well as end-user industry, susceptibility of its profitability to volatile raw material prices, working capital intensive nature of its operations and close linkages with the cyclical automobile industry.

Ability of IPCL to increase its scale of operations with greater customer and end-user industry diversification while maintaining relation with its key customers, scaling up of vacuum casting business as envisaged, sustenance of its healthy operating profitability and comfortable capital structure along with effective management of its working capital requirements would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations and established manufacturing setup: IPCL has a long track record of more than four decades in manufacturing of investment castings. Mr. Piyush Tamboli, Chairman & Managing Director, has more than two decades of experience in the castings and auto component industry. IPCL uses advanced and automated equipment with high degree of precision to manufacture variety of products for automobiles, pumps, electrical & instrumentation and other engineering industries which has resulted in repeat orders from its existing customers.

Established clientele with addition of new products & customers: IPCL has long standing business relations with established players in the domestic automobile industry including Maruti Suzuki (India) Ltd., Mahindra & Mahindra Ltd., Tata Motors Ltd., Royal Enfield Motors and Bharat Heavy Electricals Ltd. Further, on account of development of new products and technology up gradation, IPCL has been able to add new customers over the last few years.

Healthy growth in TOI during FY18 as well as 9MFY19 along with improvement in operating profit margin during FY18:

IPCL witnessed a healthy volume backed growth in its TOI during FY18 as well as 9MFY19 with pick-up in demand from the automobile industry, which is the key end-user industry for IPCL's products, on the back of buoyancy witnessed in automobile sales. Furthermore, IPCL's PBILDT margin expanded by 334 bps y-o-y to 19.70% in FY18 on the back of lower raw material cost incurred during the year resulting in improvement in gross margin as well as enhanced operational efficiency with increase in capacity utilization. During 9MF19, though its PBILDT margin moderated by 315 bps y-o-y to 17.72% on account of higher power & fuel cost as well as external processing cost incurred during the period, it continued to remain healthy.

Comfortable leverage and debt coverage indicators: IPCL had a comfortable overall gearing at 0.60x (P.Y.: 0.56x) as on March 31, 2018. Marginal deterioration in its overall gearing was on account of term loan availed during the year for capex as well as increase in outstanding amount of working capital bank borrowings with growth in scale of operations.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Debt coverage indicators (PBILDT interest coverage, total debt/PBILDT and total debt/GCA) improved and continued to be comfortable during FY18 with improvement in operating profitability translating into healthy cash accruals. Marginal moderation in the same in 9MFY19 was on account of higher o/s total debt with term loan availed for capex as well as higher outstanding working capital bank borrowings.

Key Rating Weaknesses

High customer and end-user industry concentration: IPCL supplies majority of its castings to the automobile industry (around 82% of total sales during FY18) which leads to end-user industry concentration. Also, IPCL predominantly operates in the domestic market with around 98% of its total sales in FY18 being contributed by domestic sales which makes it vulnerable to slowdown in the domestic automobile industry. Also, top five customers of IPCL constituted around 70% of its net sales during FY18, exhibiting customer concentration risk.

Exposure to raw material price volatility: The prices of major raw materials (iron scrap, steel scrap and ferro alloys) of IPCL have exhibited volatility over the past couple of years, which makes its profitability susceptible to fluctuation in raw material prices. However, IPCL has established sourcing arrangement with local suppliers and due to its long standing business relations with its key customers; the change in the raw material prices is largely passed on albeit with some time lag.

Working capital intensive nature of operations: IPCL pays its suppliers for its key raw materials (like steel and ferro alloys) within a period of one month whereas due to higher bargaining power of IPCL's larger customers, average credit period given to its customers is two to three months. This, along with sizeable inventory requirements results in working capital intensive nature of operations. IPCL continued to have an elongated operating cycle of 101 days during FY18.

Liquidity: IPCL had moderate liquidity with average utilization of fund-based working capital limit at around 85% for the trailing 12 months ended February 2019. This provides buffer to a certain extent for any kind of exigencies. Also, scheduled repayments over the next 3 years are in the range of Rs.2.80-5.00 crore which are expected to be met comfortably from envisaged cash accruals.

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](#)

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

About the Company

Established in April 1975, IPCL is primarily engaged in the business of manufacturing investment castings. IPCL's castings are predominantly used in the automobile industry and it is an original equipment manufacturer (OEM) for some of the leading domestic automobile manufacturers. During FY18, IPCL commenced manufacturing of vacuum castings which find application across industries like aerospace, defence and medical implants. IPCL had an installed capacity of 1,700 metric tonne per annum (MTPA) for manufacturing of castings (including 30 MTPA for vacuum castings) as on December 31, 2018 at its plant located in Bhavnagar (Gujarat).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	92.20	107.97
PBILDT	15.21	21.27
PAT	4.24	7.98
Overall gearing (times)	0.56	0.60
Interest coverage (times)	3.89	5.08

A: Audited

Furthermore, as per 9MFY19 provisional results, IPCL reported a TOI of Rs.93.92 crore with a PAT of Rs.8.83 crore as against a TOI of Rs.80.10 crore and PAT of Rs.6.55 crore in 9MFY18.

Status of non-cooperation with previous CRA: CRISIL has suspended its ratings vide press release dated September 18, 2014 on account of non-cooperation by IPCL with CRISIL's efforts to undertake a review of the outstanding ratings

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan	-	-	2026	23.63	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	39.60	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	4.00	CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	23.63	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB-; Positive (14-Mar-17) 2)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	39.60	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB-; Positive (14-Mar-17) 2)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Jan-16)
3.	Non-fund-based - ST-BG/LC	ST	4.00	CARE A3+	1)CARE A3+ (03-Apr-18)	-	1)CARE A3 (14-Mar-17) 2)CARE A3 (17-Oct-16)	1)CARE A3 (13-Jan-16)
4.	Non-fund-based - LT-Deferred Payment Guarantees	-	-	-	-	-	1)Withdrawn (17-Oct-16)	1)CARE BBB- (13-Jan-16)

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CIN - L67190MH1993PLC071691