

Investment & Precision Castings Limited

April 3, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	65.87 (enhanced from Rs.55.52 crore)	CARE BBB; Stable [Triple B; Outlook: Stable]	Revised from CARE BBB-; Positive [Triple B Minus; Outlook: Positive]
Short-term Bank Facilities	4.00	CARE A3+ [A Three Plus]	Revised from CARE A3 [A Three]
Total Facilities	69.87 (Rupees Sixty Nine crore and Eighty Seven lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Investment & Precision Castings Ltd. (IPCL) takes into account healthy growth in IPCL's total operating income (TOI) during FY17 (refers to the period April 1 to March 31) as well as 9MFY18 with buoyancy in demand witnessed in its key end-user segment i.e. automobile industry, addition of new customers during the period and substantial improvement in IPCL's operating profit margin during 9MFY18 on the back of higher capacity utilization resulting in better absorption of its fixed costs and lower raw material cost incurred during the period.

The ratings of 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 IPCL's comfortable capital structure and debt coverage indicators during FY17 as well as 9MFY18.

The ratings, however, continue to remain constrained on account of IPCL's concentrated revenue profile in terms of 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. The ratings are further constrained by salability risk associated with its recently commenced vacuum casting manufacturing facilities.

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

Healthy growth in TOI during FY17 as well as 9MFY18 along with improvement in operating profit margin: IPCL witnessed a healthy growth in its TOI during FY17 as well as 9MFY18 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. Operating profit margin of IPCL improved substantially during 9MFY18 due to higher capacity utilization resulting in improved operational efficiency as well as lower raw material cost.

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.

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

Comfortable leverage and debt coverage indicators: IPCL had a comfortable overall gearing at 0.56x (P.Y.: 0.62x) as on March 31, 2017 due to accretion to reserves vis-à-vis stable debt level. Debt coverage also continued to be comfortable during FY17 with improvement in operating profitability translating into healthy cash accruals and stable interest costs.

Key Rating Weaknesses

High customer and end-user industry concentration: IPCL supplies majority of its castings to the automobile industry (around 75% of total sales during FY17) which leads to end-user industry concentration. Also, IPCL predominantly operates in the domestic market with domestic sales contributing approximately 98% of the total sales in FY17 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 FY17, exhibiting customer concentration risk. However, IPCL has developed vacuum castings during FY18 which, if scales up as envisaged, will provide customer as well as end-user industry diversification to some extent.

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: Suppliers of IPCL's key raw materials (like steel and ferro alloys) are generally paid 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. However, there has been marginal improvement in the operating cycle of IPCL from 107 days during FY16 to 102 days during FY17, primarily on account of better collections.

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. As on December 31, 2017, IPCL had an installed capacity for manufacturing 1,500 metric tonne per annum (MTPA) of investment castings at its plant located in Bhavnagar (Gujarat). IPCL's investment castings are predominantly used in the automobile industry and it is an original equipment manufacturer (OEM) for some of the leading domestic automobile manufacturers. Also, during March 2018, IPCL completed the establishment of manufacturing facilities for vacuum castings with total installed capacity of 400 MTPA which will find application across industries like aerospace, defence and medical implants.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	85.05	92.20
PBILDT	13.22	15.21
PAT	2.86	4.24
Overall gearing (times)	0.62	0.56
Interest coverage (times)	3.23	3.89

A: Audited

Furthermore, as per 9MFY18 provisional results, IPCL reported a TOI of Rs.80.10 crore with a PAT of Rs.6.55 crore as against a TOI of Rs.69.30 crore with a PAT of Rs.3.30 crore during 9MFY17.

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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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	-	-	2024	14.16	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	96 months from date of first disbursement	12.11	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 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.	Fund-based - LT-Term Loan	LT	26.27	CARE BBB; Stable	-	1)CARE BBB-; Positive (14-Mar-17) 2)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Jan-16)	1)CARE BB+ (05-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	39.60	CARE BBB; Stable	-	1)CARE BBB-; Positive (14-Mar-17) 2)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Jan-16)	1)CARE BB+ (05-Dec-14)
3.	Non-fund-based - ST-BG/LC	ST	4.00	CARE A3+	-	1)CARE A3 (14-Mar-17) 2)CARE A3 (17-Oct-16)	1)CARE A3 (13-Jan-16)	1)CARE A4+ (05-Dec-14)

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