Investment & Precision Castings Limited

September 07, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term bank facilities	65.73 (reduced from 73.57)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Short-term bank facilities	7.00	**CARE A4+ (A Four Plus)**	Revised from CARE A3 (A Three)
Total Facilities	**72.73 (Rupees Seventy Two crore and Seventy Three lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Investment & Precision Castings Limited (IPCL) takes in to account significant decline in its total operating income and profitability during FY20 (FY refers to the period from April 1 to March 31) and Q1FY21; and expectation of it continuing for most part of FY21 on the back of slowdown in automobile sector which is also exacerbated by the COVID-19 pandemic, along with its moderating liquidity & weakened debt coverage indicators upon recently concluded large size capex which has coincided with slowdown in demand.

The ratings further continue to remain constrained on account of IPCL's modest scale of operations with concentrated revenue profile in terms of its customer base as well as end-user industry, susceptibility of its profitability to volatile raw material prices and close linkages of its demand prospects with the cyclical domestic automobile industry.

The ratings, however, continue to derive strength from the vast experience of IPCL's promoters in the investment castings business, its established manufacturing facilities, long standing relation with its key customers along with its moderate capital structure.

CARE also takes cognizance of the company availing the moratorium granted by the lender as a COVID relief measure (as permitted by the Reserve Bank of India) on its term loan instalments and interest on working capital facilities from March 1, 2020 till August 31, 2020.

Rating Sensitivities

Positive Factors

- Diversification of its revenue profile resulting in significant reduction in its customer and end-user industry concentration, thereby entailing greater stability to its revenue and profitability
- Significant improvement in its capacity utilization along with total operating income (TOI) more than Rs.110 crore and PBILDT margin above 15% on a sustained basis
- Effective management of its working capital requirements leading to contraction in operating cycle to less than 120 days on sustained basis leading to improvement in its liquidity
- Improvement in debt coverage indicators while maintaining its moderate capital structure

Negative Factors

- Decline in scale of operations with TOI going below Rs.75 crore along with PBILDT margin below 10% on a sustained basis
- Major debt funded capex and/or increase in working capital intensity leading to deterioration of its overall gearing to more than 1x on a sustained basis
- Elongation in operating cycle beyond 160 days on a sustained basis impacting its liquidity
- Moderation in its liquidity on account of delay in realization of receivables or piling up of inventory due to adverse impact of COVID-19

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant decline in scale of operations and profitability in FY20 and Q1FY21 impacting its debt coverage indicators; and expectation of subdued performance continuing for most part of FY21

During FY20, IPCL's TOI declined by 20% y-o-y to Rs.95.76 crore on account of subdued demand due to slowdown in domestic automobile industry. IPCL's PBILDT margin declined from 17.31% in FY19 to 12.58% in FY20 largely on account of lower absorption of fixed costs and increase in outsourcing expenses for certain processes. Further, with higher finance cost associated with term debt availed to fund its capex & increased utilization of its working capital facilities, IPCL reported net loss of Rs.0.67 crore in FY20 vis-à-vis PAT of Rs.9.98 crore in FY19. Moreover, IPCL reported TOI of Rs.7.73 crore with loss at PBILDT level and net loss of Rs.3.84 crore in Q1FY21 as against TOI of Rs.25.45 crore and net loss of Rs.0.83 crore in Q1FY20, underlining further moderation in its scale of operations and profitability on account of halting of its operations in April 2020 due to lockdown and adverse impact of COVID-19 pandemic along with subdued demand from domestic automobile industry. Accordingly, its debt coverage indicators marked by interest coverage & Total Debt / GCA has moderated to 1.84 times and 10.46 years during FY20 compared to 3.99 times and 3.75 years during FY19 respectively. Its debt coverage indicators further weakened during Q1FY21 on the back of operating loss during the quarter. On account of subdued outlook for domestic automobile industry, IPCL's performance is expected to remain subdued for most part of FY21.

High customer and end-user industry concentration

IPCL supplies majority of its castings to the automobile industry wherein sales to automobile industry accounted for around 86% of its total sales during FY20 leading to significant end-user industry concentration risk. Also, IPCL primarily operates in the domestic market with domestic sales constituting around 98% of total sales during FY20, which makes it vulnerable to slowdown in demand from the cyclical domestic automobile industry. Moreover, top five customers of IPCL constituted around 60% of its total sales during FY20, exhibiting customer concentration risk, wherein IPCL has relatively lower bargaining power vis-à-vis its larger customers.

Subdued demand scenario in automobile industry

The automobile industry is inherently vulnerable to the economic cycles and is sensitive to the interest rates and fuel prices. Overall auto sales, registered a y-o-y decline of 14.80% in FY20 vis-à-vis a y-o-y growth of 6.40% in FY19, amidst weak consumer sentiments along with rising insurance and ownership costs due to new BS VI norms, liquidity crisis in the NBFC sector and volatile fuel prices. Post the disruption induced by Covid-19 pandemic during Q1FY21, in July 2020, on m-o-m basis, passenger vehicles segment has shown recovery in domestic sales by 73%, followed by 2-wheelers with 26% and 3-wheelers with 24%, however, comparison on a y-o-y basis still depicts decline of 3.9%, 15.2% and 77.2% in passenger vehicles, 2-wheelers and 3-wheelers respectively. Even if the pandemic is curtailed, the consumer sentiments are expected to be unfavorable and demand is expected to remain muted during H1FY21 led by subdued economic conditions impacting jobs and income levels. IPCL, being in automobile ancillary industry, faces significant risks associated with the dynamics of the automobile industry.

Exposure to raw material price volatility

Iron scrap, steel scrap and ferro alloys form the key raw material required for manufacturing of castings. IPCL procures majority of its raw material requirement domestically wherein it has established sourcing arrangement with local suppliers. The prices of iron scrap, steel scrap and ferro alloys, being commodity items, are volatile in nature which exposes IPCL's profitability to adverse movement in raw material prices. However, IPCL has an arrangement with most of its major customers wherein sales price is adjusted for fluctuation in raw material prices on quarterly basis, which reduces risk associated with volatility in raw material prices to a certain extent.

Liquidity: Stretched

IPCL's liquidity is stretched marked by average utilization of its fund based working capital limit at ~86% in the trailing 12 months ended June 2020, current ratio & quick ratio of 0.92x & 0.42x as on March 31, 2020 respectively and elongation in operating cycle from 109 days in FY19 to 141 days in FY20 with build-up of inventory due to decline in flow of orders on the back of subdued automobile industry scenario.

Also, during last three years ended FY20, IPCL incurred total capex of ~Rs.50 crore towards setting up of new building, CNC machineries and robotic system to increase process automation which was funded through mix of term loans and internal accruals. Consequently, liquidity profile of IPCL has moderated with higher utilization of fund-based working capital limit along with higher term debt principal repayment obligation vis-à-vis its expected cash accruals in medium term. However, moratorium availed on its term loan instalments and interest on working capital facilities from March 1, 2020 till August 31, 2020 along with emergency term loan granted by the lender as a COVID relief measure provides some comfort to its stretched liquidity.

Key Rating Strengths

Experienced promoters with long track record of operations and established manufacturing set up

IPCL is one of the established manufacturers of investment castings in India with a long track record of operations of more than four decades. Mr. Piyush Tamboli, Chairman & Managing Director, has vast experience in the castings and auto components industry which is evident from the satisfactory operations of IPCL over more than four decades through various economic cycles. IPCL has well established manufacturing facility located in Bhavnagar, Gujarat with total casting capacity of 18,000 MTPA (including 15 MTPA for vacuum castings) as on March 31, 2020. IPCL uses state-of-the-art automated equipment to manufacture variety of castings for automobile, pumps, electrical & instrumentation and other general engineering industries.

Established relations with key customers resulting in repeat orders

IPCL has long standing business relations with established players in the automobile industry including Maruti Suzuki (India) Ltd., Mahindra & Mahindra Ltd., Tata Motors Ltd. and Royal Enfield Motors. Due to its long-standing relationship with the customers as an approved vendor for investment castings, IPCL has been able to secure repeat orders from its customers during periods of normal demand scenario.

Moderate capital structure

Capital structure of IPCL though deteriorated over a period of time stood moderate marked by its overall gearing of 0.80 times as on March 31, 2020 vis-à-vis 0.76 times as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Incorporated in April 1975, Investment & Precision Castings Ltd. (IPCL) was promoted by Late Mr I. F. Tamboli. IPCL is primarily engaged in the manufacturing of investment castings which are largely used in the automobile industry. IPCL is an original equipment manufacturer (OEM) for some of the leading domestic automobile manufacturers. During FY18, IPCL also commenced manufacturing of vacuum castings which find application across industries like aerospace, defense and medical implants. IPCL had an installed capacity of 1,800 metric tonnes per annum (MTPA) for manufacturing of investment & vacuum castings as on March 31, 2020 at its plant located at Bhavnagar, Gujarat.

Brief Financials (Rs. Crore)	FY19 (A)	#FY20 (A)
Total operating income (TOI)	119.32	95.76
PBILDT	20.65	12.04
PAT	9.98	(0.67)
Overall gearing (times)	0.76	0.80
Interest coverage (times)	3.99	1.84

A: Audited, #: Abridged Audited results published on the stock exchange

As per Q1FY21 unaudited results, IPCL reported TOI of Rs.7.73 crore with net loss of Rs.3.84 crore as against TOI of Rs.25.45 crore and net loss of Rs.0.83 crore in Q1FY20.

Status of non-cooperation with previous CRA: CRISIL 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

Annexure-1: Details of 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	-	-	November 2026	26.13	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	39.60	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A4+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	26.13	CARE BB+; Stable	-	1)CARE BBB-; Negative (27-Jan-20) 2)CARE BBB; Negative (21-Aug-19) 3)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	39.60	CARE BB+; Stable	-	1)CARE BBB-; Negative (27-Jan-20) 2)CARE BBB; Negative (21-Aug-19) 3)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-
3.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A4+	-	1)CARE A3 (27-Jan-20) 2)CARE A3+ (21-Aug-19) 3)CARE A3+ (01-Apr-19)	1)CARE A3+ (03-Apr-18)	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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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