

## Investment & Precision Castings Ltd.

March 14, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	55.52	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	4.00	CARE A3 (A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>59.52</b> <b>(Rupees Fifty Nine Crore Fifty Two Lakh Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from vast experience of the promoters of Investment & Precision Castings Ltd. (IPCL) in the investment castings business along with its established manufacturing facility and long-standing relationship with its key customers. The ratings also factor its comfortable leverage and moderate debt coverage indicators apart from addition of few new customers on the back of increase in its product portfolio.

The ratings, however, continue to remain constrained due to IPCL's relatively moderate scale of operations, susceptibility to volatile raw material prices, working capital intensive nature of operations, high customer concentration and close linkages with the cyclical automobile industry. The ratings are further constrained by implementation and salability risks associated with its vacuum casting project.

Ability of IPCL to increase its scale of operations along-with improvement in profitability, ensuring greater customer and geographical diversification as well as retaining its key clientele and effectively managing its working capital requirement are the key rating sensitivities.

### Outlook: Positive

The positive outlook reflects CARE's expectation of improvement in IPCL's financial risk profile upon continued improvement in demand for its products from the domestic automobile sector along-with further diversification of its customer base. The outlook may be revised to 'Stable' if the company is unable to increase its scale of operations through greater diversification of clientele and improvement in its profitability.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Experienced promoters with long track record of operations*

IPCL has a long track record in manufacturing of investment castings, having been established in 1975. IPCL is promoted by Mr. I. F. Tamboli who has an experience of over four decades in the castings industry. The management team led by Mr. P.I. Tamboli and Mr. R.K. Menon have vast experience in the castings and auto-component industry.

##### *Established manufacturing set-up*

IPCL is one of the established players in the organised castings industry in India; albeit with a moderate scale of operations. The company uses advanced and automated equipments with high degree of precision to manufacture variety of products for automobiles, pumps, electrical & instrumentation and other general engineering industries. IPCL places high emphasis on quality control and continuous improvement which can be seen from the various ISO quality standards certifications received from TUV NORD, Germany.

##### *Established clientele*

IPCL has long standing business relations with established players in the domestic automobile industry such as Maruti Suzuki (India) Ltd, Mahindra & Mahindra Ltd, Bajaj Auto Ltd, Tata Motors Ltd, Bharat Heavy Electricals Ltd, etc. 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

***Comfortable leverage and moderate debt coverage indicators***

During FY16, the total operating income of IPCL grew by around 13% primarily on account of improved orders from recently added customers. The prices of raw materials had declined during FY16, which was largely passed on to the customers leading to stable profitability margins during the year. The capital structure of IPCL has remained stable with debt/equity of 0.17 times and overall gearing of 0.62 times as on March 31, 2016. During 9MFY17, the performance of IPCL has shown further improvement with improved cash accruals.

***Focus on technology up gradation and postponement of capacity expansion project***

In anticipation of higher demand from its domestic customers and envisaged venture in the export market, IPCL had planned to increase its installed investment castings capacity from 1500 MTPA to 2500 MTPA. However looking at the capacity utilization of its existing facility which is around 65%, IPCL has postponed the capacity expansion project. Instead, IPCL has shifted focus to increase the product portfolio which would help to diversify the user-industry and clientele. In addition to this IPCL is in the process of development of vacuum castings. Since the project is predominantly debt funded and it is a relatively new area of business for IPCL, timely implementation and stabilization of vacuum casting operations shall also be critical apart from marketing it to a new set of clientele.

**Key Rating Weaknesses*****High customer and user-industry concentration which exhibit inherent cyclicity in demand***

IPCL supplies majority of its castings to the automobile industry, both direct and indirect, which constituted around 73% of total sales in FY16 leading to user-industry concentration risk. IPCL predominantly operates in the domestic market with domestic sales contributing approximately 98% of the total sales in FY16. Hence, it is vulnerable to slowdown in the domestic automobile demand which was experienced in FY09 and FY13. However, there has been a gradual revival in the domestic automobile industry during FY16 and 9MFY17, wherein the sales have picked up for commercial vehicle segments.

Further, top five customers of IPCL constituted around 63% of its net sales during FY16 which exhibits customer concentration risk. However, IPCL has developed new products because of which it has been able to add new customers leading to marginal diversification of its revenue stream.

***Exposure to raw material price volatility***

The major raw materials for manufacturing castings are iron scrap, steel scrap and ferro alloys, the prices of which have shown a fluctuating trend in the past years. IPCL has established raw material sourcing arrangement through local suppliers and due to its long standing business relations with its key customers; the change in the raw material prices are largely passed on (albeit with some time lag) which is reflected by the relatively stable PBILDT margin over the past three years ended FY16.

***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 large customers, average credit period given to its customers is 2-3 months. This along with high inventory requirement, which is a business requirement, results in working capital intensive nature of operations. However, there has been marginal improvement in the operating cycle of IPCL from 117 days during FY15 to 107 days during FY16 primarily on account of better inventory management and improved collection efficiency.

**Analytical approach: Standalone****Applicable Criteria**

[CARE's methodology for manufacturing companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

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

**About the Company**

IPCL, engaged in the business of manufacturing investment castings, was established in April 1975. In 2004, IPCL set up Tamboli Castings Ltd. (TCL) as an export oriented unit and its wholly owned subsidiary. In 2009, upon family partition, IPCL group was split into two independent companies - IPCL and Tamboli Capital Ltd. (TCap); with TCap becoming the holding company of TCL. IPCL has a total installed manufacturing capacity of 1500 Metric Tonne Per Annum (MTPA) of investment castings at its plant located in Bhavnagar which predominantly supplies to the domestic automobile industry.

During FY16 (refers to the period April 1 to March 31), IPCL reported a total operating income of Rs.85.05 crore (FY15: Rs.74.65 crore) with a PAT of Rs.2.86 crore (FY15: Rs.2.15 crore). As per unaudited results for 9MFY17 (refers to the period April 1 to December 31), IPCL reported a total operating income of Rs.69.14 crore with a PAT of Rs.3.23 crore.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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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	NA	NA	NA	34.10	CARE BBB-; Positive
Fund-based - LT-Term Loan	NA	NA	Dec 10, 2023	21.42	CARE BBB-; Positive
Non-fund-based - ST-BG/LC	NA	NA	NA	4.00	CARE A3

NA: Not Applicable

**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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	21.42	CARE BBB-; Positive	1)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Jan-16)	1)CARE BB+ (05-Dec-14)	1)CARE BB+ (13-Sep-13)
2.	Fund-based - LT-Cash Credit	LT	34.10	CARE BBB-; Positive	1)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Jan-16)	1)CARE BB+ (05-Dec-14)	1)CARE BB+ (13-Sep-13)
3.	Non-fund-based - ST-BG/LC	ST	4.00	CARE A3	1)CARE A3 (17-Oct-16)	1)CARE A3 (13-Jan-16)	1)CARE A4+ (05-Dec-14)	1)CARE A4+ (13-Sep-13)
4.	Non-fund-based - LT-Deferred Payment Guarantees	LT	-	-	1)Withdrawn (17-Oct-16)	1)CARE BBB- (13-Jan-16)	-	-

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