

Magna Electro Castings Limited

February 03, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	10.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	16.25	CARE A2 (A Two)	Reaffirmed
Total Facilities	26.25 (Rs. Twenty six crore and twenty five lakh only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Magna Electro Castings Limited (MECL) continue to derive strength from the vast experience of the promoters, long operational track record of more than two decades in casting business, well-established manufacturing facilities. The ratings also factor in the comfortable profit margins and healthy capital structure and debt coverage indicators.

The ratings are, however, constrained by modest scale of operations with relatively lower capacity utilization, exposure to foreign exchange risk and intensely competitive & fragmented nature of industry.

Rating Sensitivities

Positive Factors

- Consistent improvement in the scale of operations through diversified client base
- Sustainable improvement in the operating margins above 20%

Negative Factors

- Any large-sized debt-funded capex leading to deterioration in capital structure >0.80x- 1.00x.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter

MECL was promoted in 1990 by Mr. N Krishna Samaraj, an Engineer and Management graduate by qualification. He has more than two decades of business experience in the casting industry. He currently takes care of the overall management of the company.

Long and successful operational track record of over two decades catering to both domestic and export markets

MECL has a long track record of presence for over two decades in the ductile iron casting segment. The company caters to both domestic and export market with export sales contributing to about 50% of the revenue in FY19 (refers to the period April 1 to March 31; PY: 50%). MECL caters to different industrial requirements including auto, valves, transmission, locomotives etc. and each of these contributes around 10%-12% of its total income.

Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration. The company's manufacturing facility, spread over 10 acres of land has in-house facilities such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. Some part of the machining is also done from its sister concern 'Samrajyaa and Company' located near MECL's unit.

Financial risk profile marked by comfortable profit margins and low overall gearing

The Company's PBILDT margin improved to 16.16% in FY19 compared to 13.51% in FY19 on account of improved pricing for specialized parts. As on 31st March 2019, MECL stood debt free with minimal utilisation of its working capital limits through the year when compared to a gearing of 0.06x as on March 31, 2018.

Key Rating weakness

Moderate scale of operations with relatively lower capacity utilization

The casting industry has many large players with higher capacities and large scale of integrated operations and the scale of operations of MECL, remains modest. MECL witnessed a growth of 34% in its operating income from Rs. 93 crore in FY18 to Rs. 125 crore in FY19 on the back of increased sales volume and better realizations. MECL operates at moderate capacity utilization levels for the past four years and stood at 77% during FY19

Profit margins exposed to volatility in raw material prices

The primary raw materials used for the ductile iron casting include steel scrap and ferro alloys, whose prices are inherently volatile and driven largely by global as well as local demand and supply conditions. Hence any volatility in the prices of these materials may impact the profitability of MECL. Furthermore, with about 50% of the income from export markets, the company's realizations are also exposed to risk on foreign exchange rates.

Highly competitive nature of industry

The demand for castings industry is driven primarily by growth in infrastructure, industrial growth and the need for energy-efficient solutions. During 9MFY20, passenger vehicles, commercial vehicle and two & three wheelers sales has registered a decline of 12.60%, 22.80% and 12.50%, respectively, on Y-o-Y basis. Higher automobile inventory build-up due to lower retail demand has added to the woes of the industry. Due to higher inventory with automobile dealers, most passenger vehicle manufacturers have undertaken production cuts in the past few months. This has impacted the wholesale numbers as well and is expected to impact the prospects of the automotive component manufacturers as well.

Liquidity- Adequate

The liquidity of the company characterized by sufficient accruals and no long-term repayment obligations for the current year. Its bank limits are utilized to the extent of 69% for the past 12 months ending in October 2019. The company has not used a major part of its working capital facilities in light of the favourable liquidity position of the company. The current ratio of the company improved and stood at 3.36x with as on March 31, 2019 (2.37x on March 31, 2018) with an unencumbered cash balance of Rs.6.56 crores as on 31, March 2019.

Analytical approach: Standalone

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-Auto Ancillary Companies](#)

About the Company

MECL is a public limited company incorporated in the year 1990 by Mr. N Krishna Samaraj who has more than two decades of business experience. MECL is engaged in business of manufacturing & supplying ductile and grey iron castings in the weight range of 300 grams to maximum of 2000 kilograms. MECL caters to various end-user industries like auto, locomotives, valve, windmills, transmission, etc. As on March 31, 2019, the unit had an installed capacity of 10800 MT. The company has wind mills with aggregate capacity of 4MW for captive consumption purposes.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	93.46	125.41
PBILDT	12.63	20.26
PAT	7.23	11.40
Overall gearing (times)	0.06	0.00
Interest coverage (times)	40.55	70.53

A: Audited

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
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Fund-based - ST-FBN / FBP	-	-	-	10.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	6.25	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.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Dec-18)	1)CARE BBB+; Stable (23-Oct-17)	1)CARE BBB+; Stable (06-Jan-17)
2.	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (06-Dec-18)	1)CARE A2 (23-Oct-17)	1)CARE A2 (06-Jan-17)
3.	Fund-based - LT-Term Loan	LT	0.84	CARE BBB+; Stable	-	-	1)CARE BBB+; Stable (23-Oct-17)	1)CARE BBB+; Stable (06-Jan-17)
4.	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	-	1)CARE A2 (06-Dec-18)	1)CARE A2 (23-Oct-17)	1)CARE A2 (06-Jan-17)

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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