

Steelcast Limited

July 7, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	21.26 (Reduced from 44.63)	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed
Short-term Bank Facilities	6.00	CARE A3 (A Three)	Reaffirmed
Long-term/Short-term Bank Facilities	59.65	CARE BBB-; Positive / CARE A3 (Triple B Minus; Outlook: Positive / A Three)	Reaffirmed
Total Facilities	86.91 (Rupees Eighty Six crore and Ninety One lakh only)	-	-

Rating Rationale

The ratings continue to draw strengths from vast experience of the promoters of Steelcast Limited (SCL) in steel casting business and their demonstrated track record to support the business operations through infusion of funds as and when necessary. The ratings also favourably factor in the established manufacturing setup having ability to cater to both the domestic and export demand of reputed client base, revival in domestic demand on the back of infrastructure push of government and efforts made for improving product mix and customer diversification resulting into healthy order book position.

The ratings, however, continue to remain constrained by its low capacity utilization on the back of subdued off-take from its key customers due to slowdown in demand from earth-moving equipment industry and working capital intensive operations. The ratings are further constrained by its moderate debt coverage indicators which remain susceptible to volatility associated with the prices of raw materials and foreign exchange rates.

Ability of SCL to further improve its capacity utilization and profitability, diversify its clientele as well as end-user industry and receive timely need-based financial support from the promoters shall be the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook reflects CARE's expectation of growth in SCL's scale of operations on the back of demand revival in end user industry coupled with product diversification translating into higher order book under execution and overall improvement its key financial indicators. The order flow for SCL is expected to remain consistent on the back of strong impetus of government for creating infrastructure and policy favouring domestic manufacturers for defence equipment procurements.

The outlook however, may be revised to 'Stable' in case of lower than envisaged income growth, low capacity utilization translating into lower margins, and deterioration in its debt coverage indicators.

Detailed description of key rating drivers

Key rating Strengths

Experienced promoters having reputed client base

SCL is one of the leading manufacturers of alloy and steel castings in India with a long track record of operations of more than five decades in castings industry and established marketing arrangement in domestic as well as international markets. Promoters in the past have demonstrated their ability to support the business operations through infusion of funds.

SCL has been associated with reputed client base like Komatsu group, Caterpillar India Private Limited (CIPL), JCB India Limited (JCB) and Bharat Earth Movers Limited (BEML). It has the capacity to cater to both domestic and export demand for its reputed clientele.

Efforts being made to reduce customer and product concentration risk

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

Top 6 client used to contribute the over 80% of sales to SCL in the past. Further, over 70% most of the products manufactured were targeted to mining segment. During FY17, the product portfolio has increased to over 250 parts as against around 100 parts that SCL manufactured in FY13. Moreover, SCL has started supplying to industries like locomotive and railway industry in USA, Indian defense industry, and international replacement market over & above supplying to earth moving equipment industry resulting in decline in concentration of top 6 customers to 71% in FY17 from 82% in FY16.

Likely revival in demand from end-user industries during FY18 coupled with healthy order book position

The demand outlook for the casting products has turned favourable in FY18 on the back of revival in demand from the end user industries. Previously demand from end user industry was impaired due to mining ban and stalled infrastructure projects. However, governments thrust for creating infrastructure and policy favouring domestic procurement for defence equipment's is expected to result into consistent order flow for SCL.

Key Rating Weaknesses

Modest scale of operations with moderate leverage and debt coverage indicators

During FY17, the total operating income (TOI) remained stable at FY16 levels on account of continued weak demand from end-user industries. Also, there was a change in product mix during FY17 with more orders received for high value castings and lower volumes resulting in a stable TOI for SCL. PBILDT margin has moderated marginally by 89 bps during FY17 on y-o-y basis mainly on account of higher operating overheads. However, the cash accruals improved with lower finance cost incurred during the year. Though improved, the leverage and debt coverage indicators as on March 31, 2017 continued to remain at a moderate level.

Working capital intensive nature of operations

The operations have remained working capital intensive, as indicated from fact that SCL's operating cycle has consistently remained over 100 days during the past with high receivable days. Due to presence of strong competition within the castings industry and downturn in the earth moving equipment industry, average credit period extended to the customers has remained higher.

Operating profit margin susceptible to raw material price and foreign exchange rate

The major raw materials for manufacturing of castings are steel scrap and ferro alloys; the prices of which have fluctuated during the past few years. Since, orders of SCL do not have any price variation clause, profitability of SCL is susceptible to adverse fluctuation in the price of its raw material. SCL is exposed to foreign exchange fluctuation risk to a certain extent, as the net exposure is partially hedged and partially neutralized due to export sales.

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 - Steel Companies](#)

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

About Company

Steelcast Limited (SCL) was initially promoted by the Tamboli family of Bhavnagar (Gujarat) as a partnership firm in the year 1960. Subsequently, it was converted into a private limited company in 1972 and public limited company in 1994. SCL is engaged in the business of casting of various components mainly for the earth-moving equipment manufacturers. SCL had total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2017 at its unit located in Bhavnagar, Gujarat.

During FY17 (refers to the period April 1 to March 31), SCL reported a total operating income of Rs.134.50 crore (FY16: Rs.137.38 crore) with a PAT Rs.2.36 crore (FY16: Rs.0.13 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History (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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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	-	-	-	21.26	CARE BBB-; Positive
Fund-based - LT/ ST-EPC/PSC	-	-	-	59.65	CARE BBB-; Positive / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	6.00	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	21.26	CARE BBB-; Positive	-	1)CARE BBB- (15-Jul-16)	1)CARE BBB- (23-Nov-15)	1)CARE BBB- (10-Dec-14)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	59.65	CARE BBB-; Positive / CARE A3	-	1)CARE BBB- / CARE A3 (15-Jul-16)	1)CARE BBB- / CARE A3 (23-Nov-15)	1)CARE BBB- / CARE A3 (10-Dec-14)
3.	Non-fund-based - ST-BG/LC	ST	6.00	CARE A3	-	1)CARE A3 (15-Jul-16)	1)CARE A3 (23-Nov-15)	1)CARE A3 (10-Dec-14)

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