

Steelcast Limited

July 26, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---------------------------------------|---|---|---------------|
| Long-term Bank Facilities | 10.35 (reduced from Rs.10.79 crore) | CARE BBB; Stable [Triple B; Outlook: Stable] | Reaffirmed |
| Short-term Bank Facilities | 15.75 (enhanced from Rs.6.00 crore) | CARE A3+ [A Three Plus] | Reaffirmed |
| Long-term/ Short-term Bank Facilities | 78.90 (enhanced from Rs.59.65 crore) | CARE BBB; Stable/ CARE A3+ [Triple B; Outlook: Stable/ A Three Plus] | Reaffirmed |
| Total Facilities | 105.00 (Rs. One Hundred Five crore only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Steelcast Limited (SCL) continue to draw strength from the vast experience of SCL's promoters in the steel casting business, its established manufacturing setup with ability to cater to both the domestic and export demand of a reputed client base along with promoters' demonstrated track record of need based infusion of funds to support business operations. The ratings also take cognizance of robust growth in SCL's total operating income (TOI) during FY18 (FY refers to the period April 1 to March 31) owing to revival in demand from its major end-user industry i.e. earth moving equipment manufacturers with recovery in mining & infrastructure segment, its healthy order book providing adequate revenue visibility and its healthy operating profitability backed by increased operational efficiency. The ratings also continue to positively factor in improvement in SCL's capital structure and operating cycle along with strengthening of debt coverage indicators during FY18.

The ratings, however, continue to remain constrained by SCL's moderate capacity utilization, working capital intensive nature of its operations and concentrated revenue profile with high dependence on earth moving equipment industry. The ratings are further constrained by susceptibility of SCL's profitability to volatility associated with prices of its raw materials & foreign exchange rates and its presence in a competitive & cyclical industry.

SCL's ability to further increase its scale of operations while attaining diversification in its clientele as well as end-user industry, continuity of its healthy profitability, improvement in capital structure along with efficient management of its working capital requirements would be the key rating sensitivities. Continued timely receipt of need-based financial support from the promoters shall also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with a 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. SCL has been associated with reputed clients including Komatsu Worldwide, Caterpillar Worldwide, JCB Worldwide and Bharat Earth Movers Limited (BEML). It has the capacity to cater to both domestic and export demand from its reputed clientele.

Robust growth in TOI along with healthy operating profit margin due to revival in demand from end-user industries:

SCL reported strong growth of 73% y-o-y in its TOI during FY18, primarily on account of revival in demand from its major end-user industries i.e. earth moving equipment manufacturers with pick-up in demand in both mining and infrastructure sector in domestic as well as exports market. SCL's operating profitability remained healthy with a PBILDT margin of 19.39% during FY18 with higher capacity utilization leading to better operational efficiency.

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

Improvement in capital structure along with strengthening of debt coverage indicators: SCL's overall gearing improved to 1.02x as on March 31, 2018 (1.24x as on March 31, 2017) with healthy accretion to reserves in-line with the growth in its scale of operations; while its overall debt remained largely stable. Debt coverage indicators (PBILDT interest coverage and total debt/ GCA) also strengthened during FY18 with higher operating profit translating in healthy cash accruals.

Key Rating Weaknesses

Concentrated revenue profile with dependence on mining & earth moving equipment industry: SCL continues to remain dependent on mining and earth moving equipment industry, with around 75% of its sales during FY18 contributed by these two end-user industries. However, in order to diversify, SCL expanded its product portfolio with a wider product range being offered to its existing customers. Furthermore, it has also started supplying castings to locomotive and railway industry in USA.

Working capital intensive nature of operations albeit improvement in operating cycle during FY18: The operations of SCL are working capital intensive in nature with a long operating cycle of 93 days in FY18. SCL's working capital cycle, however, shortened in FY18 due to shortening of collection period with growth in scale of operations as well as pick-up in demand from end-user industries resulting in offering of lower credit period. Utilization of working capital limits, however, remained moderately high for the trailing 12 months ended May 2018.

Operating profit margin susceptible to fluctuation in raw material price and foreign exchange rates: The major raw materials for manufacturing of castings are steel scrap and ferro alloys; the prices of which have remained volatile over the past few years. As SCL's orders do not have any price variation clause, its profitability is susceptible to adverse movement in the prices of these materials. SCL is also exposed to foreign exchange fluctuation risk to a certain extent, as the net exposure (exports less imports) is only partially hedged.

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](#)

[Rating Methodology - Steel Companies](#)

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

About the Company

SCL was initially established 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 manufacturing of castings for various components mainly for the earth-moving equipment manufacturers. SCL had an installed capacity of producing 30,000 metric tons per annum (MTPA) of castings as on March 31, 2018 at its sole unit located at Bhavnagar in Gujarat.

| Brief Financials (Rs. crore) | ^FY17 (A) | ^FY18 (A) |
|------------------------------|-----------|-----------|
| Total operating income | 134.30 | 232.72 |
| PBILDT | 25.38 | 45.13 |
| PAT | 2.97 | 20.86 |
| Overall gearing (times) | 1.24 | 1.02 |
| Interest coverage (times) | 2.50 | 3.94 |

A: Audited; ^ Both FY17 and FY18 financials are as per Ind-AS

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 | - | - | March 2019 | 10.35 | CARE BBB; Stable |
| Non-fund-based - ST-Loan Equivalent Risk | - | - | - | 0.75 | CARE A3+ |
| Fund-based - ST- Others | - | - | - | 15.00 | CARE A3+ |
| Fund-based - LT/ ST-EPC/PSC | - | - | - | 59.65 | CARE BBB; Stable/ CARE A3+ |
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 19.25 | CARE BBB; Stable/ 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 | 10.35 | CARE BBB; Stable | - | 1)CARE BBB; Stable (07-Mar-18) 2)CARE BBB-; Positive (07-Jul-17) | 1)CARE BBB- (15-Jul-16) | 1)CARE BBB- (23-Nov-15) |
| 2. | Non-fund-based - ST-Loan Equivalent Risk | ST | 0.75 | CARE A3+ | - | 1)CARE A3+ (07-Mar-18) 2)CARE A3 (07-Jul-17) | 1)CARE A3 (15-Jul-16) | 1)CARE A3 (23-Nov-15) |
| 3. | Fund-based - ST-Others | ST | 15.00 | CARE A3+ | - | - | - | - |
| 4. | Fund-based - LT/ ST-EPC/PSC | LT/ST | 59.65 | CARE BBB; Stable/ CARE A3+ | - | 1)CARE BBB; Stable/ CARE A3+ (07-Mar-18) 2)CARE BBB-; Positive / CARE A3 (07-Jul-17) | 1)CARE BBB-/ CARE A3 (15-Jul-16) | 1)CARE BBB- / CARE A3 (23-Nov-15) |
| 5. | Non-fund-based - LT/ST-BG/LC | LT/ST | 19.25 | CARE BBB; Stable/ CARE A3+ | - | - | - | - |

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