

Steelcast Limited

July 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/ Short-term Bank Facilities	90.90 (reduced from Rs.105.00 crore)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Stable / A Two)	Revised from CARE BBB; Stable / CARE A3+ (Triple B; Stable / A Three Plus)
Total	90.90 (Rupees Ninety crore and Ninety lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Steelcast Limited (SCL) take into account growth in its total operating income (TOI) alongside healthy operating profitability (PBILDT) margin, improvement in capital structure and strengthening of debt coverage indicators during FY19 (FY refers to the period from April 01 to March 31) along-with improvement in its liquidity.

The ratings continue to derive strength from vast experience of SCL's promoters in the steel casting business and their demonstrated track record of need-based fund infusion to support its business, its established manufacturing setup along with reputed clientele in both domestic and export markets.

The ratings, however, continue to remain constrained by its concentrated revenue profile marked by high dependence on earth moving equipment industry & customer concentration, susceptibility of its profitability to volatility associated with raw material prices & foreign exchange rates and its presence in a competitive & cyclical industry. The ratings are further constrained by its low revenue visibility from outstanding order book.

Ability of SCL to significantly increase its scale of operations while attaining significant diversification in its clientele as well as end-user industry, sustenance of its healthy profitability, maintain its capital structure and efficient management of its working capital requirements would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established player in the castings industry for more than five decades

SCL is one of the established 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 arrangements in domestic as well as international markets. The promoters of the company i.e. Tamboli family has vast experience in the casting business which is evident from the satisfactory operations of more than five decades through various economic cycles. The promoters have infused need-based funds to support the operations of the company during business downturns. Mr Chetan Tamboli, Chairman & Managing Director, looks after the overall management of the company. He is also assisted by a team of professional and competent personnel who possesses rich experience in the casting industry.

Established operations with ability to manufacture wide range of castings

SCL's manufacturing facility is located at Bhavnagar (Gujarat). The company uses 'no bake' and 'shell moulding' casting processes for manufacturing carbon steel, low/high alloy steel, Hadfield manganese steel and other superior grades of wear and abrasion resistant steel castings mainly catering to the requirement of earthmoving/heavy electrical equipment manufacturers, mining/mineral processing equipment manufacturers, general engineering manufacturers and end user industries such as cement, mining/mineral processing, railways, defence, thermal power and steel plants.

Catering to reputed clientele in both domestic and international markets

SCL sells its castings in both export and domestic markets. Out of its total sales, around 57% was exports during FY19. SCL's customers comprise of some of the reputed and large sized players in the mining & earth moving equipment manufacturing industry. SCL has very long standing relationship with its key customers as seen from repeat orders over the years; albeit its sales remain susceptible to slowdown in demand encountered in these end-user industries.

Robust growth in total operating income (TOI) alongside healthy PBILDT margin

SCL reported a strong growth of 37% y-o-y in its total operating income (TOI) during FY19; primarily on account of improvement in demand from its major end-user industry i.e. earth moving equipment manufacturers with revival in mining and infrastructure sectors. Operating profitability of SCL although moderated, marked by PBILDT margin of 18.77% during FY19 from 19.39% during FY18, continued to remain healthy.

Improvement in capital structure along with strengthening of debt coverage indicators

SCL's overall gearing improved to 0.59 times as on March 31, 2019 (from 1.02 times as on March 31, 2018) due to healthy accretion of profit to reserves and decline in debt level despite substantial growth in scale of operations. In line with the improvement in PBILDT and GCA, debt coverage indicators improved substantially and continued to be comfortable.

Liquidity analysis

SCL's operating cycle improved from 93 days in FY18 to 79 days in FY19 due to reduction in its inventory & debtors. Also cash flow from operations improved from Rs. 29.67 crore in FY18 to Rs.61.23 crore in FY19. Furthermore, during FY19, SCL has significantly reduced its working capital borrowings partly from its cash accruals and balance by way of tie-up of long-term debt which has led to improvement in its current ratio from 0.95 times as on March 31, 2018 to 1.35 times as on March 31, 2019. Its working capital limit utilization has declined significantly to ~15% of its sanctioned limits by end of June 30, 2019 leading to improved liquidity.

Key Rating Weaknesses

Significant revenue concentration towards earth moving equipment industry which exhibits high degree of cyclicity along with customer concentration risk

SCL continues to have high dependence on mining and earth moving equipment industry, with around 77% of its sales during FY19 contributed by these two end-user industries. Also, SCL continues to have a high customer concentration risk as its top 5 customers contributed ~80% to its TOI. In the past because of high customer & industry concentration, SCL's performance was adversely impacted due to downturn in end-user industry demand and its lower bargaining power vis-à-vis its larger customers. This is evident from its subdued performance for a very long period of time from FY14 to FY17 wherein its TOI had dipped very sharply to a low of ~Rs.81 crore in FY15 as against ~Rs.288 crore during FY13. During the period of downturn SCL's working capital cycle had also elongated significantly reflecting its lower bargaining power with its customers.

Low revenue visibility from outstanding order book

The TOI of SCL had increased significantly during FY18 & FY19 on the back of improved demand from its end-use industries. However, with an outstanding order book of ~Rs.59 crore as on July 10, 2019 vis-à-vis ~Rs.115 crore as on May 21, 2018, SCL's revenue visibility remains low.

Susceptibility of profitability to raw material price volatility & foreign exchange rate fluctuations

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. Since orders of SCL largely do not have any price variation clause, profitability of SCL is susceptible to adverse movement in the price 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](#)

[Policy on Withdrawal of ratings](#)

About the Company

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 manufacturing castings for various components required by earth-moving equipment manufacturers. SCL had total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2019 at its unit located at Bhavnagar, Gujarat.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	232.72	318.51
PBILDT	45.13	59.77
PAT	20.86	24.98
Overall gearing (times)	1.06	0.59
Interest coverage (times)	3.94	6.04

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-EPC/PSC	-	-	-	74.65	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	0.00	Withdrawn
Fund-based - ST-Others	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	16.25	CARE BBB+; Stable / 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-Term Loan	LT	-	-	-	1)CARE BBB; Stable (25-Jul-18)	1)CARE BBB; Stable (07-Mar-18) 2)CARE BBB-; Positive (07-Jul-17)	1)CARE BBB- (15-Jul-16)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	74.65	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (25-Jul-18)	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)
3.	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	1)CARE A3+ (25-Jul-18)	1)CARE A3+ (07-Mar-18) 2)CARE A3 (07-Jul-17)	1)CARE A3 (15-Jul-16)
4.	Fund-based - ST-Others	ST	-	-	-	1)CARE A3+ (25-Jul-18)	-	-
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	16.25	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (25-Jul-18)	-	-

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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