Steelcast Limited

August 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/ Short-term Bank Facilities	90.90	**CARE BBB+; Negative/ CARE A2 (Triple B Plus; Outlook: Negative/ A Two)**	**Revised from CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**
Total Facilities	**90.90 (Rupees Ninety crore and Ninety lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Steelcast Limited (SCL) continue to derive strength from vast experience of its 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, improvement in its capital structure and stable debt coverage indicators during FY20 (FY refers to the period from April 01 to March 31) along-with its adequate liquidity.

The ratings are, however, constrained by the decline in its scale of operations during FY20, small order book providing low revenue visibility, high degree of volatility associated with its operations and profitability on account of 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.

Rating Sensitivities

Positive factors

- Diversification of its revenue profile resulting in significant reduction in its customer and end-user industry concentration, thereby entailing greater stability to its revenue and profitability
- Significant improvement in its capacity utilization along with TOI more than Rs.500 crore and PBILDT margin above 20% on a sustained basis
- Effective management of its working capital requirements leading to contraction in operating cycle to less than 80 days on sustained basis
- Maintaining overall gearing of below 0.50x and Total Debt/PBILDT of less than unity on a sustained basis

Negative Factors

- Decline in scale of operations with TOI going below Rs.130 crore along with PBILDT margin below 15% on a sustained basis resulting in adverse impact on its debt coverage indicators
- Major debt funded capex leading to deterioration of overall gearing to more than 0.75x on a sustained basis
- Elongation in operating cycle beyond 120 days on a sustained basis along with adverse impact on its liquidity
- Moderation in its liquidity on account of delay in realization of receivables or piling up of inventory due to adverse impact of COVID-19 on its key customers
- Inordinate delay in recovery of loans and advances extended by it for non-core operations and/or any further extension of such loans and advances impacting its liquidity

Outlook: Negative

The outlook on the long term rating of SCL has been revised from 'Stable' to 'Negative' due to expectation of further moderation in its scale of operations in FY21 on account of likely slowdown in demand from its key end-user industries which may be exacerbated by the outbreak of the COVID-19 pandemic. Slowdown in demand is also expected to have an adverse impact on its profitability margins, debt coverage indicators and working capital cycle in the near to medium term.

The outlook may be revised to 'Stable' in case of faster than anticipated recovery in demand resulting in improvement in its scale of operations and profitability along-with adequate liquidity.

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

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 steel & alloy 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 of Bhavnagar has vast experience in the casting business which is evident from the satisfactory operations of SCL over 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 professionals 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) with total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2020. The company uses 'no bake', 'no bake automated fast loop' 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 equipment manufacturers, mining/mineral processing equipment manufacturers, general engineering manufacturers and other end user industries such as railways, defence, thermal power, oil exploration, shipping, cement and steel plants.

Catering to reputed clientele in both domestic and international markets
SCL sells its castings in both export and domestic markets wherein exports contributed 59% of its total sales in FY20. SCL's customers comprise of some of the reputed and large sized players in the mining & earth moving equipment manufacturing industry. Due to its long-standing relationship with its customers as an approved vendor for various parts, SCL has been able to secure repeat orders from its customers; albeit its sales have remained susceptible to slowdown in demand encountered from these end-user industries.

Improvement in capital structure along with stable debt coverage indicators
SCL's overall gearing improved to 0.39 times as on March 31, 2020 (0.59 times as on March 31, 2019) due to accretion of profit to reserves and decline in debt level due to repayment of term loans and reduction in working capital bank borrowings aided by healthy generation of cash flow from operations. Moreover, debt coverage indicators remained stable marked by TD/GCA of 1.73x as on March 31, 2020 (1.55x as on March 31, 2019) and TD/PBILDT of 1.20x as on March 31, 2020 (1.12x as on March 31, 2019). Interest coverage also remained comfortable at 7.56x in FY20.

Liquidity: Adequate
SCL's liquidity remained adequate marked by low utilization of its fund based working capital limits at ~25.47% in the trailing 12 months ended May 2020 and comfortable current ratio of 1.47x as on March 31, 2020. However, SCL's annual cash accruals for FY21 are expected to be tightly matched with its term debt principal repayment obligation for FY21; albeit it has adequate liquidity cushion, in terms of unutilized fund-based working capital limits and management's articulation of expected repatriation of loans extended for non-core operations which stood at Rs.15.12 crore as on March 31, 2020, to meet its debt repayment obligations. Due to its adequate liquidity, SCL has not opted for availing any moratorium on its debt obligations, the option for which was available to it as a part of RBI's COVID-19 relief measure.

Key Rating Weaknesses
Decline in total operating income (TOI) along with low revenue visibility; albeit stable PBILDT margin
During FY20, SCL's total operating income (TOI) declined by 37% y-o-y to Rs.200.92 crore on account of decline in off-take by its key customers due to slowdown in end-user industries. Moreover, SCL's revenue visibility remains low with orders on hand of Rs.39.37 crore as on June 23, 2020. However, SCL's PBILDT margin remained healthy at 18.89% in FY20 vis-à-vis PBILDT margin of 18.77% in FY19, despite decline in scale of operations, on account of favourable raw material prices and cost rationalization measures undertaken by the company during FY20.

Significant revenue concentration towards earth moving equipment industry which exhibits high degree of cyclicality along with customer concentration risk thereby resulting high degree of volatility in its operating performance
SCL continues to have high dependence on earthmoving equipment industry which in turn derives demand from the cyclical mining and infrastructure/construction sectors with 89% of its total sales in FY20 contributed by these end-user sectors. Also, SCL continues to have a high customer concentration risk as its top 5 customers contributed 71% to its total sales in FY20. In the past, on account of high customer & industry concentration, SCL's performance has been 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; and again it has exhibited sharp fall in its TOI during FY20. During the period of downturn, SCL's working capital cycle had also elongated significantly reflecting its lower bargaining power with its customers.

Susceptibility of profitability to volatility in raw material prices & foreign exchange rates
Steel scrap and ferro alloys form the key raw materials required for manufacturing of castings. The prices of steel scrap and ferro alloys, being commodity items, are volatile in nature which exposes SCL's profitability to adverse movement in raw material prices. However, SCL has price variation clauses in the orders from its major customers wherein company can pass on significant raw material price fluctuations to its customers, which mitigates risk associated with volatility in raw material prices to certain extent. SCL is also exposed to foreign exchange rates fluctuation risk to a certain extent, as the net exposure (exports less imports) is only partially hedged.

Adverse impact of COVID-19 on end-user industries
SCL faces significant risk associated with the cyclical nature of its major end-user industries such as mining and infrastructure/construction. Downturn is expected in infrastructure/construction sector due to economic slowdown which is exacerbated by the outbreak of COVID-19 pandemic, NBFC crisis and low buyer sentiments. With the government prioritizing its cash flows towards more pressing social measures, roll out of new tenders is expected to be slow in the infrastructure sector. The spread of COVID-19 and subsequent lockdown has led to reverse migration of workers which is expected to dampen the revival of infrastructure and construction activities. Further, lockdown announced by Government of India from March 25, 2020 halted the operations of the company. However, SCL gradually restarted its operations from April 27, 2020; albeit its operations remain susceptible to probable intermittent lockdowns due to the pandemic.

Analytical Approach: Standalone
Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology – Steel Companies
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Steelcast Limited (SCL) was initially established by the Tamboli family of Bhavnagar, Gujarat as a partnership firm in 1960. Subsequently, it was converted into a private limited company in 1972 and later into a public limited company in 1994. SCL is engaged in the manufacturing of castings 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, 2020 at its unit located in Bhavnagar, Gujarat.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	318.51	200.92
PBILDT	59.77	37.96
PAT	24.98	7.98
Overall gearing (times)	0.59	0.39
Interest coverage (times)	6.04	7.56

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 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/ST-EPC/PSC	-	-	-	74.65	CARE BBB+; Negative / CARE A2
Non-fund-based - LT/ST-BG/LC	-	-	-	16.25	CARE BBB+; Negative / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (30-Jul-19)	1)CARE BBB; Stable (25-Jul-18)	1)CARE BBB; Stable (07-Mar-18) 2)CARE BBB-; Positive (07-Jul-17)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ ST	74.65	CARE BBB+; Negative / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)	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)
3.	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	1)Withdrawn (30-Jul-19)	1)CARE A3+ (25-Jul-18)	1)CARE A3+ (07-Mar-18) 2)CARE A3 (07-Jul-17)
4.	Fund-based - ST-Others	ST	-	-	-	1)Withdrawn (30-Jul-19)	1)CARE A3+ (25-Jul-18)	-
5.	Non-fund-based - LT/ ST-BG/LC	LT/ ST	16.25	CARE BBB+; Negative / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Jul-19)	1)CARE BBB; Stable / CARE A3+ (25-Jul-18)	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ST-EPC/PSC	Simple
2.	Non-fund-based - LT/ST-BG/LC	Simple

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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About CARE Ratings:
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