

Tamboli Castings Limited

February 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	16.76 (reduced from Rs.19.96 crore)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	4.20	CARE A2 [A Two]	Reaffirmed
Total Facilities	20.96 (Rupees Twenty crore and Ninety Six lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Tamboli Castings Ltd. (TCL) continue to draw strength from the vast experience of its promoters in the investment castings business, established manufacturing facility with state-of-the-art technology and long-standing relations with its key customers. The ratings continue to positively factor in TCL's healthy operating profitability, its comfortable capital structure, liquidity and strong debt coverage indicators.

The ratings, however, continue to remain constrained by TCL's modest scale of operations, high customer concentration, working capital intensive nature of operations and susceptibility of its profitability to volatility in raw material prices & foreign exchange rate fluctuation.

TCL's ability to increase its scale of operations through greater customer & geographical diversification, sustenance of its healthy profitability and maintenance of comfortable capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established manufacturing setup: TCL is engaged in the business of manufacturing investment castings since 2004. It is promoted by Mr. B. F. Tamboli who has an experience of over four decades in the castings industry. TCL has state-of-the-art manufacturing facility with automated equipment and machinery to manufacture variety of castings which find application across diversified end-user industries including automobile, pneumatics, pumps & valves and general engineering industries.

Established relation with its key customers: TCL has long standing business relation with established players across diverse industries like Festo AG & Co. KG (pneumatics segment), Aweat GmbH (general engineering), Flowserve (Austria) GmbH (pumps & valves) and Schmittergroup AG (automotive) due to high quality standards as well as high precision products which have resulted in repeat business from its key customers.

Healthy operating profitability with comfortable leverage and strong debt coverage indicators: TCL is engaged in manufacturing of high precision products which results in healthy operating profit margin for the company. Operating profit margin further expanded in H1FY19 with an improvement in PBILDT margin by 515 bps compared to that in FY18 due to lower raw material costs which was not passed on to its customers. Furthermore, TCL had a comfortable capital structure marked by overall gearing of 0.21x as on March 31, 2018 (nil debt on net basis, considering the free cash and bank balance available with TCL). Also, TCL continued to report strong debt coverage indicators (PBILDT interest coverage, total debt/ PBILDT and total debt/ GCA) during FY18.

Key Rating Weaknesses

Modest scale of operations with high customer concentration: TCL continued to operate on a modest scale during FY18 with its total operating income (TOI) remaining stable compared with that in FY17 level. However, it reported a healthy y-o-y growth of 11% in its TOI during H1FY19. Pneumatics segment contributed around 50% of total sales in FY18. Furthermore, TCL is exposed to customer concentration risk with around 41% (P.Y.: 29%) of net sales being contributed by a single customer, Festo, which has been the largest customer for TCL over the past three years.

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

Working capital intensive nature of operations: TCL pays its suppliers for its key raw materials generally within a period of 15-30 days whereas it normally offers credit period of 45-60 days to its customers. This along with sizeable inventory requirements, results in working capital intensive nature of operations which is demonstrated by a long operating cycle of 130 days during FY18.

Exposure to raw material price volatility and foreign exchange rate fluctuation: The major raw materials for manufacturing castings are steel scrap and ferro alloys, the prices of which are inherently volatile. This makes TCL's profitability susceptible to fluctuation in its raw material prices. However, TCL has established raw material sourcing arrangement with local suppliers and due to its long standing business relations with its key customers; the change in the raw material prices is largely passed on albeit with some time lag. Also, major portion of TCL's sales is in the form of exports which is hedged only partially, exposing TCL to risk of adverse movement in the forex rates.

Liquidity: TCL had comfortable liquidity with low average utilization of working capital limits at around 2% (average for the past 12 months ended November 2018). This leaves adequate cushion for meeting funding requirement in case of any exigency. Furthermore, TCL had free cash and bank balance of Rs.17.90 crore as on March 31, 2018. Also, TCL's repayment obligations are minimal compared with its expected cash accruals, providing comfort to that extent.

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](#)

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

About the Company

Incorporated in October 2004, TCL is engaged in manufacturing of investment castings, which find application across industries like automotive, pneumatics, pumps & valves and other general engineering industries. Majority of TCL's business is export oriented with overseas sales constituting around 91% of its gross sales during FY18 (90% in FY17). As on September 30, 2018, TCL had a total installed capacity of 600 metric tons per annum (MTPA) for manufacturing castings at its unit located in Bhavnagar in Gujarat.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	54.84	55.42
PBILDT	14.76	14.74
PAT	6.65	6.56
Overall gearing (times)	0.23	0.21
Interest coverage (times)	11.17	11.24

A: Audited

Furthermore, during H1FY19 (based on provisional results), TCL reported a TOI of Rs.27.41 crore with a PBT of Rs.7.06 crore as against a TOI of Rs.24.79 crore and PBT of Rs.3.74 crore in H1FY18.

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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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	-	-	February 2023	5.76	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	11.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	4.20	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	5.76	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Apr-18)	-	1)CARE BBB+; Stable (12-Dec-16) 2)CARE BBB+ (18-Oct-16)	1)CARE BBB (17-Nov-15)
2.	Fund-based - LT-Cash Credit	LT	11.00	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Apr-18)	-	1)CARE BBB+; Stable (12-Dec-16) 2)CARE BBB+ (18-Oct-16)	1)CARE BBB (17-Nov-15)
3.	Non-fund-based - ST-BG/LC	ST	4.20	CARE A2	1)CARE A2 (02-Apr-18)	-	1)CARE A2 (12-Dec-16) 2)CARE A2 (18-Oct-16)	1)CARE A3+ (17-Nov-15)

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