

Welcast Steels Limited

October 04, 2019

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings ^[1]	Rating Action
Long-term bank facilities	11.30	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Long-term/Short-term bank facilities	3.70	CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable / A One Plus]	Reaffirmed
Total Facilities	15.00 (Rupees Fifteen Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Welcast Steels Limited (WSL) continue to draw strength from its strong parentage of AIA Engineering Limited (AIA) which has long track record of operations in the same line of business and its operational linkage with AIA procuring majority of the production of WSL, its experienced management, moderate financial risk profile of WSL and its presence in High Chrome Mill Internals (HCMI) industry which has high entry barriers with stable replacement demand.

The long-term rating, however, continues to be constrained on account of low profitability margins of WSL and its exposure to end use industry risks.

Continuation of off-take arrangement between AIA & WSL, effective management of scrap sourcing and working capital along with improvement in its profitability margins would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage along with operational linkage with the parent which operates in the same line of business

AIA, the parent company of WSL, is one of the leading players in HCMI industry. Over the years, AIA has grown manifold and has robust financial risk profile and healthy liquidity supported by large cash accruals & very comfortable capital structure. Both AIA & WSL operate in the similar line of business which provides synergetic benefits in terms of shared brand name, technical know-how, R&D, marketing, etc. WSL also gets benefited in terms of better sourcing terms since WSL sources raw material from the suppliers of AIA.

Captive off-take agreement with the parent

WSL has entered into a contract manufacturing agreement with AIA wherein it is agreed upon that WSL shall manufacture grinding media balls for AIA according to purchase order placed from time to time and as per technical specifications provided by AIA. Over the last few years around 85-95% of sales of WSL are made directly to AIA and same is expected going forward also, as articulated by the company management. It significantly reduces salability risk of WSL and minimizes the counter party credit risk, considering the strong credit profile of AIA.

Experienced management with long track record of operations

WSL has almost four decades of successful track record in manufacturing of High chrome grinding media balls. Incorporated in 1972, it has grown manifold, with present installed capacity of 42,000 MTPA. Over the years, with strong management team and support from its parent AIA, WSL was able to achieve ~90-95% capacity utilization in last three years ended FY19. Mr. Mohan Rao VVR, presently serving as chief executive officer (CEO) of WSL holds B.E. and MBA degree. He has vast experience of 50 years in manufacturing industry. Mr. Bhadresh K. Shah, presently serving as non-executive director of WSL and Managing Director of AIA holds B. Tech in Metallurgy from IIT, Kanpur. He has vast experience of over 47 years in the manufacturing and design of various kinds of value-added product, impact-abrasion & corrosion resistant high chrome castings.

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

Moderate financial risk profile

Over the years, WSL has accumulated Net-worth of ~Rs.35 crore as against Rs.1.20 crore of outstanding debt (working capital) as on March 31, 2019 resulting in comfortable overall gearing level of 0.03 times. The debt coverage indicators also remain comfortable with interest coverage ratio at 8.46 times and Total debt/ GCA ratio at 0.39 years during FY19.

High entry barriers with stable replacement demand of HCMI industry

HCMI industry can be categorized as an industry with customer stickiness, technical expertise and limited competition. The customer stickiness in HCMI industry is high due to its vital role in the grinding process of various end user industries and their failure or inefficiency can result in major loss of production. Secondly, the technical knowhow is critical for HCMI manufacturers unlike forged media balls and acts as entry barrier as industry players require high expertise in metallurgy and process technology which limits the competition.

The major part of HCMI demand is generated as replacement demand. Nearly ~80-85% of the total global demand of HCMI is of replacement demand. Accordingly, even though there is slowdown in new capacity additions in end user industries, replacement demand provides a cushion for HCMI manufacturers such as WSL.

Liquidity: Strong

Liquidity of WSL is marked by strong accruals against no term debt repayment obligations. With an overall gearing of 0.03 times as of March 31, 2019, the issuer has sufficient gearing headroom to raise additional debt in case of any exigency. The operating cycle of WSL stood comfortable at 29 during FY19. WSL has sanctioned fund based limit of Rs.11.30 crore and non-fund limit of Rs.3.70 crore from bank. The average fund based working capital limit utilization of WSL stood ~30% for the trailing 12 months ended June 2019. Accordingly, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Further, the parent of WSL i.e. AIA on a standalone basis had more than Rs.1100 crore of free liquid investments as on March 31, 2019.

Key Rating Weaknesses**Low profitability margins**

WSL largely acts as a production centre wherein AIA off-takes almost entire production of WSL. WSL is highly dependent on its parent w.r.t its sales, technical know-how, operational and financial support resulting in negligible sales & operational risk and hence WSL has low profitability margins. The PBILDT and PAT margins stood at 1.52% and 0.68% respectively during FY19.

Exposure to end use industry risks

HCM balls manufactured by WSL have applications mainly in three user industries viz. Mining, Thermal power generation & Cement. Accordingly, WSL is exposed to the risks associated with these user industries. Out of these three user industries, currently demand from mining industry outpaces the demand from other two industries. Mining industry is also sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. However, in AIA's consolidated TOI, WSL contributes only ~8-10% which limits the percolation of above-said risks to WSL.

Analytical approach: Standalone along with factoring linkages with its parent company i.e. AIA Engineering Limited

WSL usually manufactures bigger size grinding media balls which are complementary to AIA's facilities. In addition to that WSL's manufacturing facility is located at Bengaluru and offers location advantage in terms of servicing its major clientele in export markets. Furthermore, WSL has contract manufacturing agreement with AIA, wherein AIA procures nearly 90-95% of WSL's production. AIA also provides need based financial, technical and operational support to WSL.

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 – Factoring Linkages in Ratings](#)

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

About the Company

Incorporated in 1972, Welcast Steels Limited (WSL) is a High Chrome Grinding Media manufacturer. Later on in 1996, AIA Engineering Limited (AIA) bought 41.32% stake in WSL and since then AIA has gradually increased its holding in WSL. As on June 30, 2019, AIA holds 74.85% equity stake in WSL, making it a subsidiary of AIA with balance equity stake held by public. High Chrome Grinding Media is used in various industries for crushing and grinding operations. These grinding balls are impact, abrasion and corrosion resistant, which makes it suitable for crushing large quantity mineral ore, clinker/lime stone and coal in mining, cement and thermal power generation sector respectively. WSL has a single manufacturing facility located at Bengaluru having total installed capacity of 42,000 Metric Tonne Per Annum (MTPA). WSL has capability of manufacturing various grades of grinding balls in various sizes ranging 40-90 mm diameter based on the customer's requirements.

AIA is an Ahmedabad based manufacturing company, which operates in the same line of business and manufactures High Chrome Grinding Media, Mill Liners and Diaphragms, etc. collectively known as High Chrome Mill Internals (HCMI). AIA was promoted by Mr. Bhadrash K. Shah in 1978. AIA has total eight manufacturing units with cumulative capacity of 3,90,000 MTPA. AIA also has eight foreign subsidiaries to market its products and provides customer centric solution across the geographies. Furthermore, AIA is in the process to expand its installed capacity by 50,000 MTPA.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	234.37	270.12
PBILDT	3.62	4.11
PAT	1.59	1.84
Overall gearing (times)	0.15	0.03
Interest coverage (times)	7.93	8.46

A: Audited

As per Q1FY20 (Prov.) results, WSL has reported a TOI of Rs.42.49 crore with a PAT of Rs.0.27 crore vis-à-vis TOI of Rs.64.53 crore with PAT of Rs.0.11 crore during Q1FY19 (Prov.).

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 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-Cash Credit	NA	NA	NA	11.30	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	3.70	CARE A+; Stable / CARE A1+

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-Cash Credit	LT	11.30	CARE A+; Stable	1)CARE A+; Stable (15-Apr-19)	-	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	3.70	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (15-Apr-19)	-	-	-

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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