

## Steelcast Limited

March 07, 2018

### Ratings

| Facilities                               | Amount<br>(Rs. crore)                                                       | Rating <sup>1</sup>                                                                           | Rating Action                                                                                   |
|------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Long-term Bank Facilities                | 10.79<br>(reduced from<br>Rs.21.26 crore)                                   | <b>CARE BBB; Stable</b><br><b>[Triple B; Outlook: Stable]</b>                                 | Revised from<br>CARE BBB-; Positive<br>[Triple B Minus;<br>Outlook: Positive]                   |
| Short-term Bank Facilities               | 6.00                                                                        | <b>CARE A3+</b><br><b>[A Three Plus]</b>                                                      | Revised from CARE A3<br>[A Three]                                                               |
| Long-term/ Short-term Bank<br>Facilities | 59.65                                                                       | <b>CARE BBB; Stable/<br/>CARE A3+</b><br><b>[Triple B; Outlook: Stable/<br/>A Three Plus]</b> | Revised from<br>CARE BBB-; Positive/ CARE A3<br>[Triple B Minus;<br>Outlook: Positive/ A Three] |
| <b>Total Facilities</b>                  | <b>76.44</b><br><b>(Rs. Seventy Six crore and<br/>Forty Four lakh only)</b> |                                                                                               |                                                                                                 |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Steelcast Limited (SCL) is driven by the robust growth witnessed in its total operating income (TOI) during 9MFY18 (FY refers to the period from 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 on the back of strong government impetus, healthy order book on hand providing adequate revenue visibility and further expansion in its operating profitability with improved operational efficiency.

The ratings continue to draw strength from vast experience of SCL's promoters in steel castings business and their demonstrated track record to support the business operations through infusion of funds as and when necessary. The ratings also favorably factor in SCL's established manufacturing setup having ability to cater to both the domestic and export demand of a reputed client base, moderately leveraged capital structure along with strengthening of debt coverage indicators during 9MFY18.

The ratings, however, continue to remain constrained by relatively low capacity utilization despite improvement in the same during 9MFY18, its working capital intensive nature of operations and concentrated revenue profile with dependence on earth moving equipment industry. The ratings are further constrained by susceptibility of SCL's profitability to volatility associated with the prices of raw materials & foreign exchange rates and its presence in a competitive & cyclical industry.

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

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Robust growth in TOI along with improvement in operating profit margin with revival in demand from end-user industries:** SCL reported a strong growth of 73% y-o-y in its total operating income (TOI), primarily on account of revival in demand from the key end-user industries of SCL's casting products including mining and infrastructure with strong government impetus on the sector. The growth in demand from these industries is expected to be sustained in the near-

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

term. SCL's healthy PBILDT margin further expanded by 85 bps on y-o-y basis during 9MFY18 due to higher capacity utilization leading to better operational efficiency.

**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 client base like 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.

**Moderately leveraged capital structure along with strengthening of debt coverage indicators:** SCL's overall gearing improved to 1.26x as on December 31, 2017 (1.48x as on March 31, 2017) due to healthy accretion to reserves, in-line with the growth in its scale of operations, while overall debt remained largely stable. Debt coverage indicators (PBILDT interest coverage and total debt/ GCA) also strengthened during 9MFY18 with higher operating profit translating in healthy cash accruals.

#### Key Rating Weaknesses

**Concentrated revenue profile with dependence on earth moving equipment industry:** SCL continued to have dependence on mining and construction sector, with around 85% of its sales during 9MFY18 contributed by these two end-user industries. However, in order to diversify, SCL has expanded its product portfolio and has started supplying products to industries including locomotive and railway industry in USA and international replacement market.

**Working capital intensive nature of operations:** The operations of SCL are working capital intensive in nature marked by a long operating cycle which however, improved during 9MFY18 due to shortening of collection period with pick-up in demand from end-user industries resulting in offering of lower credit period. Utilization of working capital limits, however, remained moderately high at around 84% for the trailing 12 months ended January 2018.

**Operating profit margin susceptible to fluctuation in raw material price and foreign exchange rate:** 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 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](#)

[CARE's methodology for manufacturing companies](#)

[Rating Methodology - Steel Companies](#)

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

#### 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 casting of various components mainly for the earth-moving and construction equipment manufacturers. SCL had total casting capacity of 30,000 metric tons per annum (MTPA) as on March 31, 2017 at its unit located in Bhavnagar, Gujarat.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income       | 137.38   | 134.50   |
| PBILDT                       | 26.59    | 24.84    |
| PAT                          | 0.13     | 2.36     |
| Overall gearing (times)      | 1.81     | 1.48     |
| Interest coverage (times)    | 1.92     | 2.42     |

A: Audited

Further, as per 9MFY18 provisional results, SCL reported a TOI of Rs.160.24 crore and a PAT of Rs.11.59 crore, as against a TOI of Rs.92.43 crore and a PAT of Rs.1.00 crore in 9MFY17.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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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  | -                | -           | 2020          | 10.79                         | CARE BBB; Stable                          |
| Fund-based - LT/ST-EPC/PSC | -                | -           | -             | 59.65                         | CARE BBB; Stable / CARE A3+               |
| Non-fund-based - ST-BG/LC  | -                | -           | -             | 6.00                          | 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              | 10.79                          | CARE BBB; Stable            | 1)CARE BBB-; Positive (07-Jul-17)           | 1)CARE BBB- (15-Jul-16)                   | 1)CARE BBB- (23-Nov-15)                   | 1)CARE BBB- (10-Dec-14)                   |
| 2.      | Fund-based - LT/ ST-EPC/PSC            | LT/ST           | 59.65                          | CARE BBB; Stable / CARE A3+ | 1)CARE BBB-; Positive / CARE A3 (07-Jul-17) | 1)CARE BBB- / CARE A3 (15-Jul-16)         | 1)CARE BBB- / CARE A3 (23-Nov-15)         | 1)CARE BBB- / CARE A3 (10-Dec-14)         |
| 3.      | Non-fund-based - ST-BG/LC              | ST              | 6.00                           | CARE A3+                    | 1)CARE A3 (07-Jul-17)                       | 1)CARE A3 (15-Jul-16)                     | 1)CARE A3 (23-Nov-15)                     | 1)CARE A3 (10-Dec-14)                     |

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