Investment & Precision Castings Limited

August 21, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	73.57 (Enhanced from Rs.63.23 crore)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Short Term Bank Facilities	7.00 (Enhanced from Rs.4.00 crore)	**CARE A3+**	**Reaffirmed**
Total	**80.57 (Rupees Eighty crore and fifty seven lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Investment & Precision Castings Ltd. (IPCL) continue to derive strength from the vast experience of IPCL's promoters in the investment castings business, its established manufacturing facilities, long standing relation with its key customers, growth in total operating income (TOI) during FY19 (FY refers to the period from April 1 to March 31) backed by higher utilization of its installed capacity along with stable operating profitability and moderate capital structure & debt coverage indicators during FY19.

The ratings, however, continue to remain constrained on account of IPCL's moderate scale of operations with concentrated revenue profile in terms of its customer base as well as end-user industry, susceptibility of its profitability to volatile raw material prices and close linkages of its demand prospects with the cyclical automobile industry. The ratings are further constrained by significant decline in its profitability during Q1FY20 on the back of fall in its capacity utilization due to slowdown in demand from the automobile sector which is currently facing a challenging scenario; and its moderate liquidity on the back of recently concluded large size capex which has coincided with slowdown in demand.

Ability of IPCL to increase its scale of operations through greater customer and end-user industry diversification while maintaining relation with its key customers, scale-up of its vacuum casting business as envisaged, improve its profitability and debt coverage indicators while maintaining its capital structure along with effective management of its working capital requirements would be the key rating sensitivities.

Outlook: Negative

The outlook on the long-term rating for the bank facilities of IPCL has been revised to 'negative' on CARE's expectation that IPCL's scale of operations and profitability are likely to be lower than previously envisaged primarily on account of weak demand scenario from the automobile industry which is also expected to result in increase in working capital intensity of IPCL's operations. The outlook may be revised to 'stable' in case of meaningful and sustained improvement in IPCL's scale of operations, profitability and working capital cycle resulting in overall improvement in its operational and financial performance.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations and established manufacturing set up

IPCL has a long track record of operations of more than four decades in manufacturing of investment castings. Mr. Piyush Tamboli, Chairman & Managing Director, has more than two decades of experience in the castings and auto component industry. IPCL uses advanced and automated equipment with high degree of precision to manufacture variety of products for automobiles, pumps, electrical & instrumentation and other engineering industries.

Established relations with key customers resulting in repeat orders along with addition of new customers

IPCL has long standing business relation with established players in the automobile industry including Maruti Suzuki (India) Ltd., Mahindra & Mahindra Ltd., Tata Motors Ltd. and Royal Enfield Motors apart from business relation with the leading engineering sector company, Bharat Heavy Electricals Ltd. Further, on account of development of new products and technology up gradation, IPCL has been able to add some new customers over the last few years; albeit business volumes with them are currently at relatively lower levels.

Healthy growth in total operating income (TOI) during FY19 along-with relatively stable operating profitability margins

During FY19, TOI of IPCL registered healthy y-o-y growth of 10.51% driven by growth in sales volume with pick-up in demand from its major end-user industry i.e. auto and auto-component manufacturers. IPCL's operating profit (PBILDT)

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

margin moderated by 289 bps y-o-y to 17.31% during FY19 on account of higher raw material cost incurred during the year alongside higher power & fuel costs. However, on account of provision for deferred tax assets, its PAT margin improved to 8.36% during FY19 vis-à-vis 7.39% during FY18.

Moderate capital structure and debt coverage indicators

Capital structure of IPCL stood moderate marked by its overall gearing of 0.76 times as on March 31, 2019 which deteriorated marginally from 0.60 times as on March 31, 2018 on account of recently concluded partly debt funded capex. Its debt coverage indicators too stood at a moderate level with interest coverage of 3.99 times during FY19 vis-à-vis 5.08 times during FY18 and Total debt/GCA moderating from 2.77 years during FY18 to 3.75 years during FY19.

Key Rating Weaknesses

High customer and end-user industry concentration with automobile sector facing subdued demand scenario

IPCL supplies majority of its castings to the automobile industry (both directly and indirectly) with sales to it constituting around 84% (P.Y.: 82%) of IPCL's total sales during FY19 and the same trend has continued during Q1FY20 leading to significant end-user industry concentration risk. Also, IPCL predominantly operates in the domestic market with around 98% of its total sales in FY19 being contributed by domestic sales which makes it vulnerable to slowdown in demand from the cyclical domestic automobile industry. Also, top five customers of IPCL constituted around 69% (PY: 70%) of its net sales during FY19, exhibiting high customer concentration risk, especially considering its relatively lower bargaining power vis-à-vis its larger customers.

During Q1FY20, auto sales registered a decline of 10.40% Y-o-Y in overall sales vis-à-vis 26% growth registered a year ago. Passenger vehicle sales are expected to remain sluggish during the current financial year. Higher automobile inventory build-up due to lower retail demand has added to the woes of the industry. Due to higher inventory with automobile dealers, most passenger vehicle manufacturers have undertaken production cuts in the past few months. This has impacted the wholesale numbers as well. The tough financing conditions, given the current NBFC crisis, are expected to persist in the ongoing financial year thus impacting automobile sales in the near term. This is expected to impact the prospects of the automotive component manufacturers as well.

Exposure to raw material price volatility

The prices of major raw materials (iron scrap, steel scrap and ferro alloys) of IPCL have exhibited volatility over the past couple of years, which makes its profitability susceptible to fluctuation in raw material prices. However, IPCL has established 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 provided the demand scenario is robust.

Significant moderation in operational & financial performance during Q1FY20

On the back of slow-down in demand from the auto industry and inability of the company to diversify its revenue profile, IPCL's capacity utilization which stood at ~76% during FY19 declined to ~58% during Q1FY20. Upon decline in capacity utilization coupled with fixed overheads, IPCL reported significant decline in its profitability during Q1FY20 marked by decline in its PBILDT margin to 8.62% vis-à-vis 13.98% in Q1FY19. Further, with higher finance cost associated with term debt availed to fund its capex in last two years & higher depreciation, it also reported net loss of Rs.0.83 crore in Q1FY20.

Liquidity

During FY19, the operating cycle of IPCL elongated to 109 days compared to 101 days during FY18, primarily due to high build-up of inventory upon gradual decline in flow of orders on the back of subdued automobile industry scenario. Given the prevailing slowdown in demand scenario from the automobile industry and IPCL's lower bargaining power with its larger customers, its working capital cycle is likely to exhibit elongation during FY20 arising largely from inventory build-up and longer receivable period. Also, during FY18 & FY19, IPCL incurred a total capex of ~Rs.43 crore towards setting up of new building, CNC machinery and robotic system to increase process automation which was partly debt funded and balance was funded from internal accruals. Accordingly, liquidity profile of IPCL has moderated leading to higher utilization of fund-based working capital limits at around 84% for the trailing 12 months ended July 2019 with maximum utilization reaching to a level of 96%. IPCL has total term debt principal repayment obligation of Rs.4.36 crore during FY20 against which its GCA for Q1FY20 stood at Rs.1.01 crore.

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 - Auto Ancillary Companies
Financial ratios - Non- Financial Sector

About the Company

Established in April 1975, IPCL is primarily engaged in the business of manufacturing investment castings. IPCL's castings are predominantly used in the automobile industry and it is an original equipment manufacturer (OEM) for some of the leading domestic automobile manufacturers. During FY18, IPCL commenced manufacturing of vacuum castings which find application across industries like aerospace, defence and medical implants. IPCL had an installed capacity of 1,800 metric tonne per annum (MTPA) for manufacturing of castings (including 30 MTPA for vacuum castings) as on June 30, 2019 at its plant located in Bhavnagar (Gujarat).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	107.97	119.32
PBILDT	21.27	20.65
PAT	7.98	9.98
Overall gearing (times)	0.60	0.76
Interest coverage (times)	5.08	3.99

A: Audited; Prov.: Published results on stock exchange

Furthermore, as per Q1FY20 provisional results, IPCL reported a TOI of Rs.25.45 crore with a net loss of Rs.0.83 crore as against a TOI of Rs.30.80 crore and PAT of Rs.1.50 crore in Q1FY19.

Status of non-cooperation with previous CRA: CRISIL suspended its ratings vide press release dated September 18, 2014 on account of non-cooperation by IPCL with CRISIL's efforts to undertake a review of the outstanding ratings.

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	-	-	April 2026	33.97	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	39.60	CARE BBB; Negative
Non-fund-based - ST-BG/LC	-	-	-	7.00	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 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	33.97	CARE BBB; Negative	1)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB-; Positive (14-Mar-17) 2)CARE BBB- (17-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	39.60	CARE BBB; Negative	1)CARE BBB; Stable (01-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB-; Positive (14-Mar-17) 2)CARE BBB- (17-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3+	1)CARE A3+ (01-Apr-19)	1)CARE A3+ (03-Apr-18)	-	1)CARE A3 (14-Mar-17) 2)CARE A3 (17-Oct-16)
4.	Non-fund-based - LT-Deferred Payment Guarantees	-	-	-	-	-	-	1)Withdrawn (17-Oct-16)

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Hardik Shah
Contact no. - +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Business Development Contact
Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID- deepak.prajapati@careratings.com

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