Investment & Precision Castings Limited

January 27, 2020

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Investment & Precision Castings Ltd. (IPCL) takes in to account higher than envisaged decline in its total operating income and profitability during 9MFY20 on the back of subdued demand from automobile sector.

The ratings 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 and moderate capital structure & debt coverage indicators.

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 9MFY20 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 moderating liquidity on the back of recently concluded large size capex which has coincided with slowdown in demand.

Outlook: Negative

The outlook on the long-term rating for the bank facilities of IPCL continues to remain '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.

Rating Sensitivities

Positive Factors

- Growth in scale of operations marked by TOI of more than Rs.130.00 crore along with improvement in PBILDT margin to more than 15% on a sustained basis.
- Effective management of its working capital requirements resulting in contraction of its operating cycle to less than 90 days on a sustained basis leading to reduction in utilisation of its fund based working capital limits from the present level.

Negative Factors

- Decline in its scale of operations marked by its TOI falling below Rs.90 crore along with PBILDT margin below 10% on a sustained basis
- Deterioration in its overall gearing beyond 1.00 times on a sustained basis
- Elongation in its operating cycle beyond 120 days on a sustained basis

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

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

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.

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. Its interest coverage has further moderated to 1.83 times during 9MFY20.

Key Rating Weaknesses
Significant moderation in scale of operations and profitability during 9MFY20
During 9MFY20, TOI of IPCL has declined to Rs.71.91 crore vis-à-vis Rs.93.92 crore in 9MFY19 primarily due to subdued auto industry scenario. In line with decline in TOI, its profitability marked by PBILDT margin has declined to 11.52% during 9MFY20 vis-à-vis 17.72% in 9MFY19 due to increase in raw material prices, high outsourcing expenses for certain processes and lower absorption of fixed overheads due to decline in sales. 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.0.94 crore during 9MFY20. Furthermore, GCA for 9MFY20 remained lower by 68% vis-à-vis 9MFY19. Also, its profitability during 9MFY20 remained significantly lower than previously envisaged.

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 9MFY20 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 9MFY20, passenger vehicles, commercial vehicle and Two & Three wheelers sales has registered a decline of 12.60%, 22.80% and 12.50% respectively on Y-o-Y basis. 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.

Liquidity: Stretched
IPCL's liquidity is stretched primarily on account of high build-up of inventory upon gradual decline in flow of orders on the back of subdued automobile industry scenario. During FY19, the operating cycle of IPCL elongated to 109 days compared to 101 days during FY18. 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 Q4FY20 and Q1FY21 arising largely from inventory build-up and longer receivable period. Also, during FY18 and 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. During 9MFY20, the company has availed an additional term loan of Rs.1.87 crore for capex. Accordingly, liquidity profile of IPCL has moderated leading to higher utilization of fund-based working capital limits at around 88% for the trailing 12 months

ended December 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 it has repaid Rs.2.93 crore during 9MFY20 out of its cash accruals of Rs.3.75 crore for this period. Furthermore, its term loan repayments are getting stepped-up during FY21.

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 (A)
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

As per 9MFY20 (published) results, IPCL reported a TOI of Rs.71.91 crore with a net loss of Rs.0.94 crore as against a TOI of Rs.93.92 crore with a PAT of Rs.8.83 crore during 9MFY19.

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; Negative (21-Aug-19) 2)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; Negative (21-Aug-19) 2)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+ (21-Aug-19) 2)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.*

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About CARE Ratings:

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