July 26, 2017

Nelcast Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term Fund-based Limits	72.00	[ICRA]A+ (Positive), Reaffirmed, outlook revised from Stable
Long-term/Short-term Fund-based Limits[#]	(72.00)	[ICRA]A+ (Positive)/A1+, Reaffirmed, outlook revised from Stable
Proposed Long-term/Short Term Fund-based Limits	18.00	[ICRA]A+ (Positive)/A1+, Reaffirmed, outlook revised from Stable
Short-term Fund-based Limits	18.00	[ICRA] A1+, Reaffirmed
Short-term Non-fund Based Limits	9.00	[ICRA] A1+, Reaffirmed
Commercial Paper Programme (CP)	30.00	[ICRA] A1+, Reaffirmed

**Instrument details are provided in Annexure-1*

[#]Sublimit of Rs.72.00 crore long-term fund based bank facility.

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced as ICRA A plus)[1] outstanding on the Rs. 72.00[2]-crore fund-based bank facilities, the Rs. 72.00-crore fund-based (sub-limits) bank facilities and the Rs. 18.00-crore proposed fund-based facilities of Nelcast Limited. The outlook on the long-term rating has been revised to Positive from Stable. ICRA has also reaffirmed the short-term rating of [ICRA] A1+ (pronounced as ICRA A one plus) outstanding on the Rs.18.00-crore short-term fund-based bank facilities, the Rs.9.00-crore short-term non-fund based bank facilities and the Rs. 30.00-crore CP programme of Nelcast Limited. If the Rs. 72.00-crore fund-based bank (sub-limit) facilities and the Rs.18.00-crore proposed fund-based facilities are availed as a short-term limit, the rating of [ICRA]A1+ will be applicable.

Rationale

The revision in outlook reflects the expected improvement in the operational and financial performance of Nelcast going forward, supported by the favourable demand outlook for the tractor and medium and heavy commercial vehicle (M&HCV) segments. Also, the company's recent business diversification is a positive. The diversified presence across the M&HCV and tractor segments lent stability to revenues and earnings in the recent fiscals, buffering the impact of slowdown in any particular segment. In addition to the steady volume growth in the domestic original equipment manufacturers (OEM) segment, increasing revenue contribution from the higher margin exports and railways segments as well as growing acceptance of the recent product launches are likely to drive the revenue growth and aid margin expansion in the medium term. The ratings also positively factor in the established position of Nelcast in the domestic ferrous castings segment, aided by the strong relationships with leading M&HCV and tractor OEMs. Further, Nelcast's financial profile remains strong as characterised by its conservative capital structure with adequate coverage metrics and sound liquidity position that lend financial flexibility. Despite the proposed expansion plans to cater to the growing customer requirements, its financial profile

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[1]For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2]100 lakh = 1 crore = 10 million

is expected to remain comfortable due to the anticipated steady growth in earnings and healthy cash reserves held.

The ratings continue to factor in the inherent cyclicality in the key end-user segments (both the domestic M&HCV and tractor segments) that have constrained the company's operating performance in the past and relatively high customer concentration, especially in the tractor segment and the fragmented nature of the domestic foundry industry which results in competitive pressures. The ability of the company to improve its revenue growth and margins, on the back of favourable industry prospects and recent diversification measures, would be the key rating sensitivities going forward.

Key rating drivers

Credit strengths

- Strong market position in the key product categories aided by established relationships with leading OEMs in the M&HCV and tractor segments
- Improving business diversification with increasing revenue contribution from higher margin supplies to exports and railways as well as new product lines launched during the recent fiscals
- Healthy financial profile characterised by conservative capital structure with low gearing and adequate coverage indicators and comfortable liquidity position
- Favourable demand outlook for the domestic tractor and M&HCV segments, which should drive steady growth in revenues and earnings over the short-to-medium term

Credit weaknesses

- Operating performance exposed to the inherent cyclicality in the domestic M&HCV and tractor segments, as witnessed during the recent fiscals; increasing revenue contribution from other business streams are likely to reduce the dependence on the domestic OEM segment in the medium term
- High customer concentration, especially in the revenues generated from the tractor segment
- Fragmented nature of the domestic foundry industry results in competitive pressures

Description of key rating drivers

Nelcast is an established player in the domestic ferrous castings market with a manufacturing capacity of 1.5 lakh tonne as on March 31, 2017. Most of the company's revenues are generated from the domestic OEM segment (~85% during FY2017). The exports and railways segments along with supplies to smaller tier-I auto ancillaries contributed to the rest of the revenue. The company primarily caters to the M&HCV and tractor industry segments owing to the relatively medium size and complexity of these sectors as well as better realisations. Diversified presence across these two segments supported Nelcast's revenues and profits in the recent fiscals, when these industry segments witnessed alternating periods of slowdown. The inherent cyclicality in the key end-user segment has been the key deterrent to the company's revenue growth in the recent past.

Within these segments, M&HCV has been the major revenue contributor for Nelcast in the recent fiscals, contributing to 40-50% of its revenues during FY2013-FY2017. The share of tractor segment has declined during the recent fiscals to 33.3% in FY2017 from 50.2% of the overall revenues in FY2014, in line with the slowdown in demand in the tractor industry and the performance of its key customer in the segment. Though revenues in the M&HCV segment are diversified across key industry players, a substantial portion of the revenues in the tractor segment are generated from a single customer. This exposes the company's earnings to concentration risks. To reduce dependence on the domestic OEM segment and support margin expansion, Nelcast diversified its presence into the exports and railways segments. The company also launched new products in the domestic OEM space, where it enjoys a strong competitive position. In addition to the growth in revenues, these segments witnessed healthy margins in line with the value addition, with most of the supplies being machined components.

Nelcast's financial profile continues to be healthy, characterised by its conservative capital structure and healthy coverage metrics. Most of the debt availed is used to meet its working capital requirements. The company's long-term debt levels were low at Rs 3.65 crore as on March 31, 2017. Steady earnings over the years, coupled with limited debt funded expenditure, have supported the healthy capitalisation ratios of the company. Nelcast plans to expand its production capacities with a moderate outlay of ~Rs. 75 crore (0.21 times of its gross block as on March 31, 2017), which is to be incurred during FY2018-FY2019 through a mix of debt and internal accruals. Despite the likely increase in debt levels, the leverage ratios are expected to remain comfortable due to the anticipated growth in earnings and healthy net-worth base of the company. Further, given the adequate financial flexibility in the form of cash and liquid investments to the tune of Rs. 67.20 crore as on March 31, 2017, Nelcast's the liquidity position is expected to remain at comfortable levels in the medium term.

Table 1 – Key Financial Indicators

	FY2016	**FY2017**
Operating income (Rs. crore)	561.26	575.95
PAT (Rs. crore)	31.87	33.99
Total Debt/ TNW (times)	0.32	0.23
Total Debt/ OPBDIT (times)	1.49	1.18
Interest coverage (times)	6.81	7.28
NWC/ OI (%)	16.5%	18.2%

Source – Nelcast and ICRA research

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

- Corporate Credit Rating Methodology
- Rating methodology for Auto Component Manufacturers

About the company

Incorporated in 1982, Nelcast manufactures grey and ductile castings for the M&HCV and tractor industry segments. The company's product profile for the M&HCV segment includes wheel hubs, brake drums, axle housing, shackles and brackets. For the tractor segment, the company's product profile comprises transmission case, centre housing, rear axle housing and hydraulic lift cover. It also supplies ribbed plates and brake discs used in metro rail projects and railways. Nelcast has an aggregate installed capacity of 150,000 tonne per annum at its two factories at Ponneri, Tamil Nadu and Gudur, Andhra Pradesh. The company's equity shares are listed on the National Stock Exchange and the Bombay Stock Exchange, with promoters holding a stake of 74.4% as on March 31, 2017.

As per the audited financial statements of FY2017, Nelcast reported a profit after tax (PAT) of Rs. 33.99 crore on an operating income (OI) of Rs. 575.95 crore, compared with a PAT of Rs. 31.87 crore on an OI of Rs. 561.26 crore as per the audited results of FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				July 2017	July 2016	June 2015	Nov 2014	June 2014
1	Fund-based Limits	Long Term	72.00	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund-based Limits#	Long-Term/ Short Term	(72.00)	[ICRA]A+ (Positive)/A1+	[ICRA]A+ (stable)/A1+	[ICRA]A (stable)/A1	[ICRA]A (stable)/A1	[ICRA]A (stable)/A1
3	Proposed Fund-based Limits	Long-Term/ Short Term	18.00	[ICRA]A+ (Positive)/A1+	[ICRA]A+ (stable)/A1+	[ICRA]A (stable)/A1	[ICRA]A (stable)/A1	[ICRA]A (stable)/A1
4	Fund-based Limits	Short Term	18.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1
5	Non Fund-based Limits	Short Term	9.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1
6	Commercial Paper	Short Term	30.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1

#These short-term fund based bank facilities are sub-limits of the Rs.72.00 crore long-term fund based bank facility

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Cash Credit Limits	-	-	-	72.00	[ICRA]A+ (Positive)
EPC/FBD	-	-	-	(72.00)	[ICRA]A+ (Positive)/A1+
Proposed Limits	-	-	-	18.00	[ICRA]A+ (Positive)/A1+
Electronic Vendor Financing Scheme	-	-	-	18.00	[ICRA] A1+
BG and LC	-	-	-	9.00	[ICRA] A1+
Commercial Paper	-	-	-	30.00	[ICRA] A1+

Source: Nelcast

ICRA

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