Nelcast Limited

July 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	72.00	72.00	[ICRA]A+ (Positive), Reaffirmed
Long-term/Short-term Fund-based Limits#	(72.00)	(72.00)	[ICRA]A+ (Positive)/A1+; Reaffirmed
Proposed Long-term/Short Term Fund-based Limits	18.00	18.00	[ICRA]A+ (Positive)/A1+; Reaffirmed
Short-term Fund-based Limits	18.00	18.00	[ICRA] A1+; Reaffirmed
Short-term Non-fund Based Limits	9.00	9.00	[ICRA] A1+; Reaffirmed
Commercial Paper Programme (CP)	30.00	30.00	[ICRA] A1+; Reaffirmed
Total	147.00	147.00	

*Instrument details are provided in Annexure-1; # sub-limits of Fund Based – Working Capital Limits

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced as ICRA A plus)[1] outstanding on the Rs. 72.00-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 remains Positive. 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 rating reaffirmation factors in the Nelcast's steady operational and financial performance during FY2018 with healthy growth in volumes and revenues. The company's financial profile remains strong characterised by comfortable capital structure, adequate coverage metrics and sound liquidity position. Despite the on-going expenditure towards expansion in production capacities with a total estimated outlay of ~ Rs. 150-crore to be incurred during FY2019 and FY2020, TD/EBITDA[2] and interest cover is expected to remain strong at ~1.4 times and ~13 times respectively with majority of expenditure to be funded with accruals and cash reserves held. The company's volume growth of ~21% in FY2018 has been supported by healthy domestic demand in the tractor and M&HCV segments along with Nelcast's increasing share of business with key customers on the back of new products added in the recent years. The company's profit margins were under pressure during recent quarters on the back of rise in raw material prices; however, expected improvement in operating leverage along with recent pricing escalation by the customers should reflect in improvement in profitability margins in the coming quarters. Increasing business from relatively higher margin segments of exports and railways is also expected to support the margins. The ratings continue to factor in the inherent cyclicality in the key end-user segments (both the domestic M&HCV and tractor segments) that has constrained the company's operating

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

[2] *Total Debt/Earnings before interest tax depreciation and amortisation*

performance in the past, relatively high customer concentration with top 3 customers accounting for 51% of sales and intense competition in the domestic foundry industry which results in competitive pressures. The ability of the company to sustain its revenue growth and improve margins and return indicators would be the key rating sensitivity going forward.

Outlook: Positive

Favourable demand prospects for the key business segments along with the on-going capacity addition are likely to support Nelcast's volume growth going forward. The Positive outlook reflects ICRA's expectations of an improvement in the credit profile of the company, supported by anticipated growth in volumes along with profitability margins and return indicators. The outlook may be revised if the performance is weaker than estimated on the back of lower than expected earnings/profit margins.

Key rating drivers

Credit strengths

Healthy performance in FY2018 aided by strong market position in the key product categories – Nelcast is an established player in the domestic ferrous castings market generating ~85% of its sales from the leading domestic OEM players in both the M&HCV and Tractor segments. With revival in demand in the tractor industry in FY2018 post a three year slow down, Nelcast's volumes in this segment grew by a healthy 23.6%. Further increasing share of business from M&HCV customers driven by increased demand of higher tonnage trucks along with new product addition by Nelcast in the recent years resulted in a healthy volumetric growth of 18.7% in the segment, outpacing the industry M&HCV (Goods Carrier) production growth of 4.5%. Nelcast is in process to expand its production facilities by a cumulative 60000 TPA during FY2019 and FY2020. Ongoing expansion along with favourable demand outlook for the key business segments is likely to drive volume growth going forward.

Healthy financial profile - Nelcast's financial profile continues to be healthy, characterised by its conservative capital structure and adequate coverage metrics. Steady earnings over the years coupled with limited debt-funded expenditure supported the healthy capitalisation ratios of the company. Further, given the adequate financial flexibility in the form of cash and liquid investments to the tune of Rs. 55.36 crore as on March 31, 2018 along with buffer on working-capital limits available (average utilisation of 62% during FY2018), Nelcast's liquidity position is expected to remain at comfortable levels in the medium term.

Credit challenges

Operating performance exposed to inherent cyclicality in the key end user segments – Nelcast derives ~90% of its sales from the domestic M&HCV and tractor segments which are both exposed to inherent demand cyclicality in the end user segment. Presence across two segments within the auto-ancillary segment has supported steady growth for Nelcast during alternating periods of slowdown in these 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 – Nelcast's top 3 customers accounted for 51% of its revenues in FY2018. Though revenues in the M&HCV segment are relatively diversified across the 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. Nevertheless, Nelcast's long standing relationship with the leading OEMs in both the segments provides comfort.

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 (effective capacity of 100000 TPA) 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 74.59% as on March 31, 2018.

Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	575.95	746.17
PAT (Rs. crore)	34.12	38.26
OPBDIT/ OI (%)	11.36%	9.81%
RoCE (%)	13.31%	13.80%
Total Debt/ TNW (times)	0.23	0.27
Total Debt/ OPBDIT (times)	1.18	1.34
Interest coverage (times)	7.28	13.19
NWC/ OI (%)	18%	18%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Current Rating (FY2019) Date & Rating July 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2018 July 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 June 2015
1	Fund-based Limits	Long Term	72.00	-	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Fund-based Limits#	Long-Term/ Short Term	(72.00)	-	[ICRA]A+ (Positive)/A1+	[ICRA]A+ (Positive)/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+(Positive)/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
5	Non Fund-based Limits	Short Term	9.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1
6	Commercial Paper	Short Term	30.00		[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1
7	Fund-based Limits	Long Term	72.00		[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits	-	-		72.00	[ICRA]A+ (Positive)
NA	Fund-based Limits#	-	-		(72.00)	[ICRA]A+ (Positive)/A1+
NA	Proposed Fund-based Limits	-	-		18.00	[ICRA]A+(Positive)/A1+
NA	Fund-based Limits	-	-		18.00	[ICRA] A1+
NA	Non Fund-based Limits	-	-		9.00	[ICRA] A1+
NA	Commercial Paper				30.00	[ICRA] A1+
NA	Fund-based Limits				72.00	[ICRA]A+ (Positive)

Source: Nelcast

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About ICRA Limited:

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