

March 22, 2023

## Nelcast Limited: Ratings reaffirmed; reaffirmed and withdrawn for Commercial Paper programme and rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	167.05	167.05	[ICRA]A(Stable); reaffirmed
Long-term Fund-based Limits	150.00	200.00	[ICRA]A(Stable); reaffirmed/assigned
Short-term Fund-based Limits	45.00	60.00	[ICRA]A1; reaffirmed/assigned
Short-term Fund-based Sub-limits	(50.00)	(60.00)	[ICRA]A1; reaffirmed/assigned
Short-term Non-fund Based Limits	18.00	25.00	[ICRA]A1; reaffirmed/assigned
Commercial Paper Programme (CP)	30.00	0.00	[ICRA]A1; reaffirmed and withdrawn
Proposed Long-term/Short-term Fund-based Limits	69.95	47.95	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
<b>Total</b>	<b>480.00</b>	<b>500.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action considers Nelcast Limited's (Nelcast) strong operational profile being one of the larger players in the Indian ductile iron/grey castings market, and its established clientele comprising major Original Equipment Manufacturers (OEMs) in India and reputed tier-I auto component suppliers in overseas markets. The company has a favourable domestic-export mix and its revenues are reasonably diversified across various segments and clients. Further, Nelcast enjoys a healthy wallet share with its customers for its key products and has had history of periodic repeat orders.

The company's operating income improved to Rs. 962.5 crore in 9M FY2023 from 659.4 crore in 9M FY2022, aided by demand uptick in the domestic commercial vehicle (CV) segment, sustenance of market share with customers and increase in penetration in the export markets. The operating margins remained moderate at 7.5% in 9M FY2023. While it improved compared to 9M FY2022 levels of 5.9% aided by favourable product mix, commodity pass-through and operating leverage benefits, it continues to be lower than the operating margins of 9-10% witnessed during FY2018-20. The company incurred significant debt-funded capex in the last few years and its business is working capital intensive, resulting in relatively high borrowings for the scale of operations. Nelcast's net debt stood at Rs. 296.1 crore<sup>1</sup> as on December 31, 2022. The relatively high debt levels and moderate profit margins have resulted in moderate debt metrics. Nelcast's Net Debt/OPBDITA stood at 3.1x for 9M FY2023, while its NCA/net debt was 14.5% for the same period. However, the company's capital structure remains comfortable with a gearing of 0.8 time as on December 31, 2022.

Nelcast's revenues are expected to improve going forward with increase in domestic CV volumes and higher penetration in the export segment. However, the global macro-economic slowdown could moderate export growth. The company's margins are expected to benefit from improved operating leverage, cost optimisation initiatives and stabilisation of its Pedapariya plant (Andhra Pradesh). Further, the debt metrics are likely to improve, supported by improvement in accruals and the absence of

<sup>1</sup> Net debt is total debt (Rs. 364.2 crore) minus unencumbered cash balance (Rs. 68.1 crore)

any debt-funded capex plans over the medium term. On the liquidity front, ICRA expects Nelcast to meet its medium-term commitments through internal sources of cash and yet be left with cash surplus.

The [ICRA]A1 rating on the company's Rs. 30.00 crore commercial paper programme has been reaffirmed and withdrawn based on confirmation from Nelcast that there is no amount outstanding against the rated instrument and is in accordance with ICRA's policy on withdrawal. This has been done at the request of the company.

## Key rating drivers and their description

### Credit strengths

**Among the larger players in the Indian ductile iron/grey castings market** – Nelcast is one of the larger players in the Indian ductile iron/grey castings market and manufactures several complex castings including axle housings, clutch housings, and bogie suspension brackets. The company enjoys established relationships with major Medium and Heavy Commercial Vehicle (M&HCV) and tractor OEMs and has healthy share of business for its key products. Its customers include major OEMs like Tractors & Farm Equipment Limited (TAFE), Ashok Leyland Limited (ALL), Tata Motors Limited (TML), Daimler and Escorts in the domestic market and tier-I auto component suppliers like Detroit Diesel Corporation, DANA Commercial Vehicles Manufacturing LLC and Meritor, USA, in the export segment. The company has a healthy share of business with its major customers along with history of periodic repeat orders.

**Healthy domestic-export mix; diversified segment and client profiles** – The company derives a sizeable portion of its revenues from exports (26.3% in 9M FY2023), which provides geographical diversification. Nelcast's exports have increased to Rs. 246.1 crore in 9M FY2023 from Rs. 221.4 crore in FY2022 (representing an annualised growth of 48.2%), backed by increase in share of business with the existing customers and addition of new products. The company caters to the M&HCV, tractors, off-highway, and railways segments in the domestic market, which provides segmental diversification. Overall, its revenues are fairly diversified, mitigating risks arising from decline in a single segment to an extent. Nelcast also has a diversified client profile comprising several major OEMs in the domestic market and tier-I auto component suppliers in the export market. While the top customer constituted ~18% of the revenues in 9M FY2023, the company has about 50 customers mitigating any concentration risks to a large extent. The company has also been increasing its export customer base periodically.

**Conservative capital structure and adequate liquidity** – The company has a comfortable capital structure as illustrated by a gearing of 0.8 time as on December 31, 2022, despite its debt-funded capex in recent years. Further, Nelcast had unencumbered cash and bank balance of Rs. 68.1 crore as on December 31, 2022, and undrawn working capital lines of Rs. 30.5 crore as on December 31, 2022, as against its sanctioned limit. With no major debt-funded capex and anticipated healthy accruals, ICRA expects the capital structure to remain conservative going forward as well.

### Credit challenges

**Moderate profit margins and debt coverage metrics** – Nelcast's operating margins were moderate at 7.5% in 9M FY2023. While it improved compared to 9M FY2022 levels of 5.9% aided by a favourable product mix, commodity pass-through and operating leverage benefits, it continues to be lower than the operating margins of 9-10% witnessed during FY2018-20. The company incurred significant debt-funded capex in the last few years and its business is working capital intensive, resulting in relatively high borrowings for the scale of operations. Nelcast's net debt stood at Rs. 296.1 crore as on December 31, 2022. The relatively high debt levels and moderate profit margins have resulted in moderate debt coverage metrics. The company's net debt/OPBDITA stood at 3.1x for 9M FY2023, while its NCA/net debt was 14.5% for the same period. Going forward, Nelcast's debt metrics are likely to improve, supported by the improvement in accruals and absence of debt-funded capex plans over the medium term.

**Exposed to cyclicity in the domestic M&HCV segment; global macro-economic slowdown could cap export revenue growth** – The M&HCV and tractor segment contributed to 37.7% of Nelcast's overall sales in 9M FY2023. This exposes the company to the inherent cyclicity in the Commercial Vehicle (CV) segment (linked to economic cycles). Also, it derives a significant portion

of its export revenues from the USA (23% of revenue in 9M FY2023), exposing it to regional risks/slowdown in the market. Nevertheless, the favourable export-domestic mix, healthy export order book and new product launches scheduled in FY2024 mitigate the risks to an extent.

## Environmental and Social risks

**Environmental considerations** – Nelcast, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, Nelcast’s prospects are linked to the ability of its customers to meet tightening emission requirements. The company remains exposed to tightening environmental regulations regarding the waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. The company has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and extensive water recycling.

**Social considerations** – Social considerations for Nelcast relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. The company also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ride sharing. The company is also vulnerable to data security and data privacy risks. However, its ability to mitigate risks arising from human capital issues in the past, provides comfort.

## Liquidity position: Adequate

The company’s liquidity position remains adequate, supported by its healthy cash balances, undrawn lines and anticipated healthy accruals from the business, going forward. The company had unencumbered cash and bank balances of Rs. 68.1 crore as on December 31, 2022, and undrawn working capital lines of Rs. 30.5 crore as against its sanctioned limit as on December 31, 2022. Against this, Nelcast has repayment obligations of Rs. 36.1 crore in FY2024 and Rs. 30.8 crore in FY2025 on its existing term loans. Also, it has only maintenance capex plans of Rs. 12-15 crore per year during FY2023–FY2025. Overall, ICRA expects the company to meet its medium term commitments through internal sources of cash and yet be left with a cash surplus.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if there is a strong and sustained recovery in volumes and earnings, without commensurate increase in debt levels, leading to improvement in credit metrics. Specific metrics for upgrade include net debt/OPBDITA reducing to less than 2x on a sustained basis.

**Negative factors** – Negative pressure on Nelcast’s ratings could emerge from sustained deterioration in the earnings or a significant rise in net debt, leading to weakening of credit profile. Specific metrics that may result in a downgrade include net debt/OPBDITA remaining above 2.5x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Components Industry</a> <a href="#">Policy on Withdrawal of Credit Rating</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Nelcast Limited. Details are provided in Annexure 2.

## About the company

Incorporated in 1982, Nelcast is one of the larger players in the Indian ductile iron/grey castings market and manufactures several complex castings including axle housings, clutch housings and bogie suspension brackets. About 26.0% of the company's revenues were derived from exports, while about 37.7% and 31.3% come from the domestic M&HCV and tractor segments, respectively in 9M FY2023. The company also supplies to the off-highway and railways segments. Nelcast has an aggregate installed manufacturing capacity of 1,60,000 metric tonne per annum at its three factories in Ponneri (Tamil Nadu), Gudur (Andhra Pradesh) and Pedapariya (Andhra Pradesh). The promoters held 74.87% stake in the company, as on December 31, 2022.

### Key financial indicators (audited)

Consolidated	FY2021	FY2022	9M FY2023*
Operating income (OI)	616.2	933.8	962.5
PAT	9.0	14.2	25.3
OPBDIT/OI (%)	7.9%	7.0%	7.5%
PAT/OI (%)	1.5%	1.5%	2.6%
Total outside liabilities/Tangible net worth (times)	0.9	1.2	NA
Total debt/OPBDIT (times)	5.0	4.9	3.8
Interest coverage (times)	2.8	2.5	3.2

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities; \*Provisional

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
				March 22, 2023	Aug 03, 2022	Aug 09, 2021	Dec 08, 2020	Jun 29, 2020	Dec 05, 2019	Aug 01, 2019
1 Long-term Term Loans	Long term	167.05	167.05	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	-	-	-
2 Long-term Fund-based Limits	Long term	200.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
3 Short-term Fund-based Limits	Short term	60.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
4 Short-term Fund-based Sub-limits	Short term	(60.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
5 Short-term Non-fund Based Limits	Short term	25.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
6 Commercial Paper Programme (CP)	Short term	30.00	-	[ICRA]A1; reaffirmed and withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
7 Proposed Long-term/Short-term Fund-based Limits	Long term and short term	47.95	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A+ (Negative) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Term Loans	Simple
Long-term Fund-based Limits	Simple
Short-term Fund-based Limits	Simple
Short-term Fund-based Sub-limits	Simple
Short-term Non-fund Based Limits	Very Simple
Commercial Paper Programme (CP)	Very Simple
Proposed Long-term/Short-term Fund-based Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan – 1	FY2018	9.25%	FY2028	107.59	[ICRA]A (Stable)
NA	Term loan – 2	FY2018	9.25%	FY2028	40.40	[ICRA]A (Stable)
NA	Term loan – 3	FY2022	9.25%	FY2028	19.06	[ICRA]A (Stable)
NA	Long-term Fund-based Limits	NA	NA	NA	200.00	[ICRA]A (Stable)
NA	Short-term Fund-based Limits	NA	NA	NA	60.00	[ICRA]A1
NA	Short-term Fund-based Sub-limits	NA	NA	NA	(60.00)	[ICRA]A1
NA	Short-term Non-fund Based Limits	NA	NA	NA	25.00	[ICRA]A1
NA*	Commercial Paper Programme (CP)	NA	NA	NA	30.00	[ICRA]A1; reaffirmed and withdrawn
NA	Proposed Long-term/Short-term Fund-based Limits	NA	NA	NA	47.95	[ICRA]A (Stable)/[ICRA]A1

Source: Company; \*Not placed.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
NC Energy Limited	100.00%	Full consolidation

Source: Company

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