

March 14, 2024

Nelcast Limited: Ratings reaffirmed; 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	175.67	[ICRA]A(Stable); reaffirmed /assigned for enhanced portion
Long-term Fund-based Limits	200.00	200.00	[ICRA]A(Stable); reaffirmed
Short-term Fund-based Limits	60.00	60.00	[ICRA]A1; reaffirmed
Short-term Fund-based Sub-limits	(60.00)	(100.00)	[ICRA]A1; reaffirmed/assigned for enhanced portion
Short-term Non-fund Based Limits	25.00	25.00	[ICRA]A1; reaffirmed
Proposed Long-term/Short-term Fund-based Limits	47.95	139.33	[ICRA]A(Stable)/[ICRA]A1; reaffirmed /assigned for enhanced portion
Total	500.00	600.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings outstanding on the bank lines of Nelcast Limited (Nelcast) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by its strong business profile and adequate liquidity. Nelcast is one of the larger players in the Indian ductile iron/grey castings market and has established clientele comprising major Original Equipment Manufacturers (OEMs)/tier-I auto component manufacturers 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 witnessed a modest growth of 1.6% to Rs. 977.3 in 9M FY2024 compared to Rs. 961.8 crore in 9M FY2023, impacted by lower volumes primarily in the domestic tractor segment, despite realisation growth of 3.9%. The operating margins improved to 8.4% in 9M FY2024 vis-à-vis 7.4% in 9M FY2023 aided primarily by a favourable product mix stemming from a higher share of export sales and focus on higher value-addition, softening raw material prices and cost-optimisation measures. While Nelcast's capital structure remained comfortable with a net gearing of 0.5x as on December 31, 2023, its coverage metrics remained moderate with Net Debt/OPBDITA¹ of 2.2x and NCA/Total Debt of 26.3% for 9M FY2024.

Nelcast derived 38.1% of its revenues in 9M FY2024 from the domestic M&HCV segment, while 21.4% came from the domestic tractor segment; another 35.1% came from exports. This exposes the company to the inherent cyclicity in the CV segment (linked to economic cycles). Also, the tractor segment is expected to witness modest growth of 1-4% in FY2025. Further, the relatively high export proportion could result in some moderation in revenues for Nelcast, given the weak outlook for auto component exports in FY2025. Nevertheless, the company's healthy order book, supported by rising supplies to new platforms because of vendor diversification initiatives by global original equipment manufacturers (OEMs), scale-up of volumes from programmes where supplies have commenced in the last few quarters and higher value addition, mitigate the revenue risk to a large extent, and are likely to support healthy medium-term revenue prospects. The company's capital structure is expected to remain comfortable while its coverage metrics are likely to improve, in the absence of any major debt-funded capex plans over the near to medium term.

¹ Net debt includes vendor bills discounted of Rs. 31.3 crore and excludes unencumbered cash and bank balances of Rs. 88.6 crore as on December 31, 2023

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile and debt metrics, supported by its cash accruals, adequate liquidity position and moderate capex, despite the flattish volume expectations for the domestic M&HCV and tractor segments and weak outlook for auto component exports in FY2025.

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 large players in the Indian ductile iron/grey castings market and manufactures several complex castings including axle housings, differential carriers, 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 Tata Motors Limited (TML), Tractors & Farm Equipment Limited (TAFE), Ashok Leyland Limited (ALL) and Daimler India Commercial Vehicles and tier-I players like Axles India Limited and Automotive Axles Limited in the domestic market and tier-I auto component suppliers like DANA Group, Detroit Diesel Corporation and Meritor, USA, in the export segment. The company has a healthy share of business with its major customers along with a 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 (35.1% in 9M FY2024), which provides geographical diversification. Nelcast's exports have increased by 38% on YoY basis to Rs. 338.8 crore in 9M FY2024 from Rs. 246.1 crore in 9M FY2023, backed by increase in share of business with the existing customers and addition of new customers and products. The company caters to the M&HCV, tractors, off-highway, and railways segments in the domestic market. The segment diversification mitigates risks arising from decline in a single segment to an extent. Nelcast also has a diversified client profile comprising several major OEMs/tier-I auto component suppliers in the domestic market and tier-I auto component suppliers in the export market. While the top customer generated ~21% of its revenues in 9M FY2024, the company has over 50 customers mitigating any concentration risks to a large extent. Nelcast 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 net gearing of 0.5x as on December 31, 2023, despite its debt-funded capex in the recent years. Further, Nelcast had unencumbered cash and bank balance of Rs. 88.6 crore and undrawn working capital lines of Rs. 30.2 crore as on December 31, 2023, against its sanctioned limit. With no major debt-funded capex going forward, ICRA expects the capital structure to remain conservative going over the medium term.

Credit challenges

Moderate debt coverage metrics – Nelcast's operating margins were moderate at 8.4% in 9M FY2024, improving over 9M FY2023 levels of 7.4%, aided primarily by a favourable product mix stemming from a higher share of export sales and focus on higher value-addition, softening raw material prices and cost-optimisation measures. However, it continues to be lower than the operating margins of 9-10% witnessed during FY2018-FY2020. The company incurred significant debt-funded capex in the last few years. Also, its business is working capital intensive, and the same resulted in high borrowings for the scale of operations. Nelcast's net debt stood at Rs. 242.7 crore as on December 31, 2023. The high debt levels and moderate profit margins have resulted in moderate debt coverage metrics. The company's Net Debt/OPBDITA stood at 2.2x for 9M FY2024, while its NCA/Total Debt stood at 26.3% for the same period. Going forward, Nelcast's coverage metrics are likely to improve, in the absence of any major debt-funded capex plans over the near to medium term.

Exposed to cyclical in the domestic M&HCV segment; global macro-economic slowdown could cap export revenue growth – The domestic M&HCV segment drove 38.1% of Nelcast's overall sales in 9M FY2024. This exposes the company to the inherent cyclical in the CV segment (linked to economic cycles). Also, the tractor segment, which contributed to 21.4% of revenues in 9M FY2024, is expected to witness modest growth of 1-4% in FY2025. This could cap revenue growth from the segment for Nelcast. Further, it derives a significant share of its revenues from exports (35.1% in 9M FY2024). The relatively high export proportion could result in some moderation in revenues for Nelcast, given the weak outlook for auto component

exports in FY2025. Within exports, the concentration in US exposes it to region-specific risks. Nevertheless, the company’s healthy order book, supported by rising supplies to new platforms because of vendor diversification initiatives by global original equipment manufacturers (OEMs), scale-up of volumes from programmes where supplies have commenced in the last few quarters and higher value addition, mitigate the revenue risk to a large extent, and are likely to support healthy medium-term revenue prospects.

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 who manufacture 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 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 is also exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards Electric Vehicles (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 is adequate, supported by its healthy cash balances, undrawn lines and anticipated accruals from the business, going forward. The company had unencumbered cash and bank balances of Rs. 88.6 crore and undrawn working capital lines of Rs. 30.2 crore against its sanctioned limit, as on December 31, 2023. Against this, Nelcast has repayment obligations of Rs. 9.6 crore in Q4 FY2024, Rs. 34.8 crore in FY2025 and Rs. 37.6 crore in FY2026 on its existing term loans. Also, the company has capex plans of around Rs. 25.0 crore per annum in FY2024-FY2026 towards modernisation and maintenance, to be funded through internal accruals. 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 improvement 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	Corporate Credit Rating Methodology Rating Methodology for Auto Components
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-II.
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About the company

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 35.1% of the company's revenues came from exports, while about 38.1% and 21.4% came from the domestic M&HCV and tractor segments, respectively, in 9M FY2024. The company also supplies its products to the off-highway and railways segments. Nelcast has an aggregate installed manufacturing capacity of 1,60,000 metric tonne per annum (MTPA) 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, 2023.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income (OI)	933.8	1,276.2
PAT	14.2	29.7
OPBDIT/OI	7.0%	7.2%
PAT/OI	1.5%	2.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.2
Total debt/OPBDIT (times)	4.9	3.8
Interest coverage (times)	2.5	3.0

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

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021	
					March 14, 2024	March 22, 2023	Aug 03, 2022		Aug 09, 2021	Dec 08, 2020
1 Long-term Term Loans	Long term	175.67	130.29	[ICRA]A (Stable)	[ICRA]A (Stable)	[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 (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
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	(100.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Short-term Non-fund	Short term	25.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Based Limits										
6	Commercial Paper Programme (CP)	Short term	-	-		[ICRA]A1; reaffirmed and withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
7	Proposed Long-term/Short-term Fund-based Limits	Long term and short term	139.33	-	[ICRA]A (Stable) / [ICRA]A1	[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

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
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 loans	FY2018-FY2023	9.25%	FY2028-FY2029	175.67	[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	(100.00)	[ICRA]A1
NA	Short-term Non-fund Based Limits	NA	NA	NA	25.00	[ICRA]A1
NA	Proposed Long-term/Short-term Fund-based Limits	NA	NA	NA	139.33	[ICRA]A (Stable)/[ICRA]A1

Source: Company

[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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Branches



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