March 27, 2025

Nelcast Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	175.67	175.67	[ICRA]A(Stable); Reaffirmed
Long-term Fund-based Limits	250.00	280.00	[ICRA]A(Stable); Reaffirmed
Short-term Fund-based Limits	60.00	60.00	[ICRA]A1; Reaffirmed
Short-term Fund-based Sub-limits	(170.00)	(180.00)	[ICRA]A1; Reaffirmed
Short-term Non-fund Based Limits	25.00	25.00	[ICRA]A1; Reaffirmed
Proposed Long-term/Short-term Fund-based Limits	89.33	59.33	[ICRA]A(Stable)/[ICRA]A1; Reaffirmed
Total	**600.00**	**600.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings outstanding on the bank lines of Nelcast Limited (Nelcast / the company) considers ICRA's expectation of a stable improvement in the company's 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) 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 and new business additions.

However, the ratings are constrained by the company's moderate profit margins and debt coverage metrics. The company's operating income declined by 5.7% YoY to Rs. 921.9 crore in 9M FY2025, impacted by muted demand across most segments and unfavourable product mix, amid commodity price softening. Nelcast's operating margins also declined 120 bps YoY to 7.3% in 9M FY2025, largely stemming from inability to pass on cost inflation, amid revenue decline. While Nelcast's capital structure remained comfortable with a net gearing of 0.5x as on December 31, 2024, its coverage metrics remained moderate with Net Debt/OPBDITA of 3.0x and NCA/Total Debt of 12.9% for 9M FY2025.

Nelcast derived 37.1% of its revenues in 9M FY2025 from the domestic M&HCV segment, while 23.6% came from the domestic tractor segment; another 34.8% came from exports. This exposes the company to the inherent cyclicality in the CV segment (linked to economic cycles). Further, the relatively high exports and concentration in the USA (United States of America) within that, exposes the company to region-specific risks. The impact of potential import tariffs, if any, on the company's revenues is a key monitorable. 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) and scale-up of volumes from programmes where supplies have commenced in the last few quarters, mitigate the revenue risk to a large extent, and are likely to support healthy medium-term revenue prospects. While there is a breach of negative trigger currently, ICRA understands that Nelcast's coverage metrics are likely to improve, aided by anticipated improvement in operating margins from favourable product mix, and absence of debt-funded capex plans over the medium term. The improvement in coverage metrics, with Net Debt/OPBDITA reducing below 2.5 times on a sustained basis, would be a key monitorable.

The 'Stable' outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its strong business profile, cash accruals and adequate liquidity position.

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 and new business additions.

Healthy domestic-export mix; diversified segment and client profiles – The company derives a sizeable portion of its revenues from exports (34.8% in 9M FY2025), which provides geographical diversification. Nelcast's exports decreased by 6.3% on a YoY basis to Rs. 317.5 crore in 9M FY2025, impacted by lower offtake from customers. However, the same is expected to improve going forward on the back of healthy order book from existing and new customers, albeit vulnerable to global macro-economic and tariff-related risks. 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 ~22% of its revenues in 9M FY2025, the company has over 50 customers largely mitigating any concentration risks. 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, 2024, despite its debt-funded capex in the recent years. Further, Nelcast had unencumbered cash and bank balance of Rs. 45.4 crore and undrawn working capital lines of Rs. 85.1 crore as on December 31, 2024, against its sanctioned limits. With no major debt-funded capex going forward, ICRA expects the capital structure to remain conservative going over the medium term.

Credit challenges

Moderate profit margins and debt coverage metrics – Nelcast's operating margins were moderate at 7.3% in 9M FY2025, reflecting a YoY decline of 120 bps. This largely stemmed from inability to pass on cost inflation, amid revenue decline. 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. 267.0 crore as on December 31, 2024. The high debt levels and moderate profit margins have resulted in moderate debt coverage metrics. The company's Net Debt/OPBDITA stood at 3.0x for 9M FY2025, while its NCA/Total Debt stood at 12.9% for the same period. While there is a breach of negative trigger currently, ICRA understands that Nelcast's coverage metrics are likely to improve, aided by anticipated improvement in operating margins from favourable product mix, and absence of debt-funded capex plans over the medium term. The improvement in coverage metrics, with Net Debt/OPBDITA reducing below 2.5 times on a sustained basis, would be a key monitorable.

Exposed to cyclicality in the domestic M&HCV segment; global macro-economic slowdown could cap export revenue growth – The domestic M&HCV segment drove 37.1% of Nelcast's overall sales in 9M FY2025. This exposes the company to the inherent cyclicality in the CV segment (linked to economic cycles). Further, it derives a significant share of its revenues from exports (34.8% in 9M 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) and scale-up of volumes from programmes where supplies have commenced in the last few quarters, largely mitigate the revenue risk, and are likely to support healthy medium-term revenue prospects. The impact of potential import tariffs, if any, on the company's revenues is a key monitorable.

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 healthy accruals from the business, going forward. The company had unencumbered cash and bank balances of Rs. 45.4 crore and undrawn working capital lines of Rs. 85.1 crore as against its sanctioned limits of Rs. 280 crore as on December 31, 2024. Against this, Nelcast has repayment obligations of Rs. 39.3 crore in FY2026 and Rs. 31.7 crore in FY2027 on its existing term loans. Also, the company has annual maintenance capex plans of around Rs. 20.0-25.0 crore in FY2026 andFY2027, 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.

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 34.8% of the company's revenues came from exports, while about 37.1% and 23.6% came from the domestic M&HCV and tractor segments, respectively, in 9M FY2025. 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, 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	1,276.2	1,274.2
PAT	29.7	54.4
OPBDIT/OI	7.2%	7.8%
PAT/OI	2.3%	4.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.2
Total debt/OPBDIT (times)	3.8	3.7
Interest coverage (times)	3.0	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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. Crore)	Date & Rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
				March 27, 2025	March 28, 2024	March 14, 2024	March 22, 2023	Aug 03, 2022	Aug 09, 2021
1	Long-term Term Loans	Long term	175.67	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Long-term Fund-based Limits	Long term	280.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[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
4	Short-term Fund-based Sub-limits	Short term	-180.00	[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
6	Commercial Paper Programme (CP)	-	-	-	-	-	[ICRA]A1; Withdrawn	[ICRA]A1	[ICRA]A1
7	Proposed Long-term/Short-term Fund-based Limits	Long term and short term	59.33	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [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
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	280.00	[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	(180.00)	[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	59.33	[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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