

AKP Ferrocast Private Limited

February 16, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	11.50	11.50	[ICRA]BB+ (Stable); Reaffirmed, removed from Issuer not cooperating category
Term loans	9.50	5.00	[ICRA]BB+ (Stable); Reaffirmed, removed from Issuer not cooperating category
Non-fund based facilities	2.00	2.00	[ICRA]A4+; Reaffirmed, removed from Issuer not cooperating category
Total	23.00	18.50	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB+ (pronounced ICRA double B plus)¹ for the Rs. 11.5-crore fund-based facilities and the Rs. 5.0-crore (Revised from Rs. 9.5 crore) term-loans of AKP Ferrocast Private Limited (AKP). ICRA has also reaffirmed the short-term rating at [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 2.0- crore non-fund based bank facilities of the company. The outlook on the long-term rating is 'Stable'. Also, ratings were removed from the 'Issuer not cooperating' category.

Rationale

The reaffirmation of the ratings takes into account the extensive experience of the promoters in the foundry business and established relationship of the company with its suppliers and its reputed clientele which supports business prospects. The ratings favourably factor in the unexecuted order-book position of Rs. 28.0 crore as on January 31, 2018, to be executed within the next two months, which provides revenue visibility in the near term. The ratings also factor in the comfortable financial profile with a gearing of 0.7 times as on March 31, 2017 and the adequate coverage indicators supported by improvement in profitability in FY2017. Additionally, the presence of upward price-escalation policy in terms of raw-material prices, with most of its customers mitigates volatility in margins to an extent. The ratings, however, continue to remain constrained by the company's modest scale of operations and modest net worth, restricting operational and financial flexibility to an extent. The ratings also factor in the highly competitive and fragmented nature of operations which limits the company's pricing flexibility and high sectoral-concentration with majority of revenues derived from construction equipments and agriculture industries. Going forward, AKP's ability to scale up operations and improve profitability while effectively managing working-capital requirements will be key rating sensitivities.

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

Outlook: Stable

The 'Stable' outlook reflects ICRA's belief that AKP will continue to benefit from the extensive experience of its promoters in the foundry business, and its healthy order-book position. The outlook may be revised to 'Positive' if the company is able to demonstrate substantial growth in revenues and profitability, resulting in healthy cash accruals. The outlook may be revised to 'Negative' if the company reports lower-than-expected accruals or any stretch in working-capital cycle or higher than anticipated capital expenditure, weakens liquidity.

Key rating drivers

Credit strengths

Long experience of the promoters in the foundry business – AKP was incorporated in 2008; however, the promoters have over three decades of experience in the metal casting business. AKP has its manufacturing unit at Machhe Industrial area in Belgaum, Karnataka and has over 15-20 products in its portfolio. The promoters also have controlling stake in the group entities such as AKP Foundries Private Limited, Integral Alpha Private Limited, Belgaum CNC Applications Private Limited and Belgaum Sands Private Limited which are majorly involved in the similar line of business.

Established relationship with key customers – The promoters, over the years, have established healthy relationship with customers, resulting in repeat orders, which provides stability to revenues. The customers of the company predominantly consist of mining and construction equipment and agricultural equipment manufacturers. The customer concentration remains moderate with the top-five customers accounting for ~60% of the total revenues in the last three fiscals.

Healthy order-book position provides revenue visibility in the near term – As on January 31, 2018, the company has a healthy order-book position with unexecuted orders worth Rs. 28.0 crore to be dispatched by March 2018, which provide revenue visibility in the near term. With the improved macroeconomic conditions in FY2018, the company witnessed a healthy growth in revenues and registered an operating income of Rs. 70.2 crore in 9M FY2018.

Improvement in operating margins in FY2017, and comfortable financial risk profile – The operating margins of the company have improved to 16.0% in FY2017 from 14.9% in FY2016, primarily owing to reduction in power expenses due to the purchase of solar and wind power at lower costs. The company has a comfortable capital structure with gearing of 0.7 times as on March 31, 2017, and adequate coverage indicators. However, with debt-funded capex towards the purchase of machineries and construction of stores planned to be incurred over FY2019 and FY2020, the capital structure and the coverage indicators are likely to be impacted.

Credit challenges

Modest scale of operations – AKP's scale of operations continue to remain modest with a marginal growth of ~2.5% in FY2017 to Rs. 77.2 crore due to subdued demand from the end-user industry during the fiscal. The moderate scale of operations restricts financial and operational flexibility to a major extent.

High sector-concentration risk – AKP manufactures various gray and ductile iron castings which find their application primarily in mining and construction equipments, agriculture and automotive industry etc. However, construction equipment and agriculture industry contribute to a ~80% of the company's revenues, exposing it to risks related to project-specific demand and sector concentration.

High fragmented nature of the industry limit pricing flexibility – Highly competitive and fragmented nature of the industry with the presence of large number of small and medium sized players in and around the region where the company operates, limits its overall pricing flexibility and in turn, keeps the margins under check.

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

Links to applicable criteria:

[Rating Methodology for Entities in the Ferrous Metals Industry](#)

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 2009, AKP Ferrocast Private Limited is engaged in the manufacturing of gray and ductile iron castings and machining of the castings produced. AKP's manufacturing plant is located in Belgaum, Karnataka with an installed capacity to produce 18,000 tonne per annum of iron castings of weight 40 kg to 350 kg per piece. Mr. Ram Bhandare, the Chairman and Director of the company, has close to four decades of experience in the foundry business. Mr. Parag Bhandare, the Managing Director, and Mr. Gautam Bhandare, the Technical Director, also have rich experience in the foundry business. The manufacturing facility is spread over an area of 14 acres and houses a corporate office, a foundry and a machine shop and the company engages over 400 employees on permanent and contractual basis.

In FY2017, the company reported a net profit of Rs. 6.1 crore on an operating income of Rs. 77.2 crore compared to a net profit of Rs. 5.0 crore on an operating income of Rs. 75.2 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	75.3	77.2
PAT (Rs. crore)	5.0	6.1
OPBDIT/ OI (%)	14.9%	16.0%
RoCE (%)	31.5%	34.0%
Total Debt/ TNW (times)	1.2	0.7
Total Debt/ OPBDIT (times)	1.5	1.0
Interest coverage (times)	4.9	7.7
NWC/ OI (%)	16.4%	12.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating Feb 2018	Date & Rating Dec 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Fund-based facilities	Long Term	11.50	11.50	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	-	-
2 Term loans	Long Term	5.00	5.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	-	-
3 Non-fund based facilities	Short Term	2.00	2.00	[ICRA]A4+	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+	-	-

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 facilities	-	-	-	11.50	[ICRA]BB+ (Stable)
NA	Term Loans	FY2015	12.75%	FY2024	5.00	[ICRA]BB+ (Stable)
NA	Non-fund Based Facilities	-	-	-	2.00	[ICRA]A4+

Source: AKP

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Ankita Vasa

+91 80 4922 5513
ankita.sheth@icraindia.com

R Srinivasan

+91 44 4596 4315
r.srinivasan@icraindia.com

Vinay S V

+91 80 4922 5514
vinay.sv@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents