August 03, 2022

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	141.00	167.05	[ICRA]A(Stable); reaffirmed/assigned
Long-term Fund-based Limits	160.00	150.00	[ICRA]A(Stable); reaffirmed
Short-term Fund-based Limits	30.00	45.00	[ICRA]A1; reaffirmed/assigned
Short-term Fund-based Sub-limits	(50.00)	(50.00)	[ICRA]A1; reaffirmed
Short-term Non-fund Based Limits	17.00	18.00	[ICRA]A1; reaffirmed/assigned
Commercial Paper Programme (CP)	30.00	30.00	[ICRA]A1; reaffirmed
Proposed Long-term/Short-term Fund-based Limits	2.00	69.95	[ICRA]A(Stable)/[ICRA]A1; reaffirmed/assigned
Total	**380.00**	**480.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings takes into account Nelcast Limited's (Nelcast) strong operational profile as 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 the overseas. 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 a history of periodic repeat orders.

The company reported an operating income of Rs. 933.8 crore in FY2022, its highest in the last five years, aided by improved demand in the domestic commercial vehicle (CV) segment, market share improvement with specific customers and higher penetration in the export market. However, its operating margins moderated to 7.0% in FY2022 from 7.9% in FY2021 impacted by inadequate pass-through of the increase in commodity prices and other costs. 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. As on March 31, 2022, Nelcast's net debt stood at Rs. 259.0 crore. The relatively high debt levels coupled with moderate profit margins have resulted in moderate debt metrics. Nelcast's net debt/OPBDITA stood at 3.9x for FY2022, while its NCA/net debt was 15.2% for the same period. The company's capital structure remains comfortable.

Going forward, Nelcast's revenues are expected to improve with recovery in the domestic CV demand and higher penetration in the export segment. Its 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 as volumes recover and the absence of 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.

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 a history of periodic repeat orders.

Healthy domestic–export mix; diversified segments and client profiles – The company derives a sizeable portion of its revenues from exports (24.0% of revenues in FY2022), which provides geographical diversification. Nelcast's exports have increased to Rs. 221.4 crore in FY2022 from Rs. 112.3 crore in FY2020, backed by increased penetration with customers. Exports is a focus area for the company and the revenues from overseas markets are likely to increase, going forward, with increase in orders with existing customers, addition of new customers and expansion into geographies. The company caters to the M&HCV, tractors, off-highway and railways segments in the domestic market. 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 ~20% of the topline, 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 0.7 times as on March 31, 2022, despite its debt-funded capex in recent years. Further, Nelcast had a cash and bank balance of Rs. 61.4 crore as on March 31, 2022 and undrawn working capital lines of Rs. 43.3 crore as on June 30, 2022. As against this, it has principal repayments of Rs. 29.6 crore on its existing loans and a maintenance capex plan of Rs. 12.0 crore in FY2023. Overall, ICRA expects the company's liquidity to remain adequate going forward as well.

Credit challenges

Moderate profit margins and debt coverage metrics– Nelcast's operating margin was moderate at 7.0% in FY2022. It contracted from 7.9% in FY2021 impacted by inadequate pass-through of the inflation in commodity prices/other costs. 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. As on March 31, 2022, the company's net debt stood at Rs. 259.0 crore. The relatively high debt levels coupled with moderate profit margins have resulted in moderate debt metrics. The company's net debt/OPBDITA stood at 3.9x for FY2022, while its NCA/net debt was 15.2% for the same period. Going forward, Nelcast's debt metrics are likely to improve, supported by the improvement in accruals as volumes recover and absence of debt-funded capex plans over the medium term.

Exposed to cyclicality in the domestic M&HCV segment – M&HCV contributed to 36.7% of Nelcast's overall sales in FY2022. This exposes the company to the inherent cyclicality in the Commercial Vehicles (CV) segment (linked to economic cycles). While the diversification of revenues from exports and other domestic segments including tractors mitigates the risk to an extent, Nelcast's revenues remain susceptible to the slowdown in the CV industry, akin to that witnessed in the last 2-3 years.

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 cash and bank balance of Rs. 61.4 crore as on March 31, 2022 and undrawn working capital lines of Rs. 43.3 crore as on June 30, 2022. Against this, it has repayment obligations of Rs. 29.6 crore in FY2023, Rs. 36.1 crore in FY2024 and Rs. 30.8 crore in FY2025 on its existing term loans. Also, Nelcast 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 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 Industry
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 24.1% of the company's revenues were derived from exports, while about 36.7% and 32.2% come from the domestic M&HCV and tractor segments respectively. 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 June 30, 2022.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	616.2	933.8
PAT	9.0	14.2
OPBDIT/OI (%)	7.9%	7.0%
PAT/OI (%)	1.5%	1.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.2
Total debt/OPBDIT (times)	5.0	4.9
Interest coverage (times)	2.8	2.5

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	Current rating (FY2023) Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Chronology of rating history for the past 3 years: Date & rating in FY2021		Date & rating in FY2020	
					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 (Negative)	-	-	-
2	Long-term Fund-based Limits	Long term	150.00	-	[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	45.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
4	Short-term Fund-based Sub-limits	Short term	(50.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
5	Short-term Non-fund Based Limits	Short term	18.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
6	Commercial Paper Programme (CP)	Short term	30.00	-	[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	69.95	-	[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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Term Loans	FY2018	NA	FY2028	167.05	[ICRA]A (Stable)
NA	Long-term Fund-based Limits	NA	NA	NA	150.00	[ICRA]A (Stable)
NA	Short-term Fund-based Limits	NA	NA	NA	45.00	[ICRA]A1
NA	Short-term Fund-based Sub-limits	NA	NA	NA	(50.00)	[ICRA]A1
NA	Short-term Non-fund Based Limits	NA	NA	NA	18.00	[ICRA]A1
NA*	Commercial Paper Programme (CP)	NA	NA	NA	30.00	[ICRA]A1
NA	Proposed Long-term/Short-term Fund-based Limits	NA	NA	NA	69.95	[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	Nelcast's Ownership	Consolidation Approach
NC Energy Limited	100.00%	Full Consolidation

Source: Nelcast Limited

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About ICRA Limited:

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