September 12, 2019 Revised

Neosym Industry Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loans	54.53	54.53	[ICRA]BBB+ reaffirmed; revised from Stable to Negative
Long-term proposed	16.47	16.47	[ICRA]BBB+ reaffirmed; revised from Stable to Negative
Long-term fund based	60.00	60.00	[ICRA]BBB+ reaffirmed; revised from Stable to Negative
Long/Short-term non-fund based	24.00	24.00	[ICRA]BBB+/ [ICRA]A2 reaffirmed; revised from Stable to Negative
Total	**155.00**	**155.00**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term outlook revision reflects ICRA's expectation that the credit profile of Neosym Industry Limited (NIL) could weaken over the near to medium term due to debt-funded investments in other CK Birla Group entities as well as pressure on its core operations given the slowdown in the domestic and international automotive industries. In FY2019, NIL invested Rs. 126 crore in its Group company, Avtec Limited, to buy out the stake of a private equity firm, which was predominantly funded through short-term loans. Despite sharp increase in operating profits, the surge in short-term loans weakened the company's credit profile with Total debt/ OPBIDTA at 4.6 times and gearing at 0.9 time in FY2019. The company had planned to repay the short-term loans by selling its land parcel in Thane, which did not materialise as per earlier envisaged timelines. However, it managed to refinance the debt in time through short-term loans from Group companies to meet repayment obligations and subsequently roll it over with short-term loans from two financial institutions. The management is confident of selling the land by January 2020 and use the sale proceeds to repay the loan. The company's ability to sell the land and reduce the debt raised for the investment in the next six to nine months remains a key monitorable.

The rating continues to draw comfort from the extensive experience of the promoter, Mr. CK Birla, and the historical track record of timely financial support extended to NIL from the promoter and promoter group entities. The company is one of the largest ferrous casting manufacturers in India with a diversified and reputed clientele, diversified revenue mix across segments and geographies, and adequate capital structure with gearing at 0.9 time as on March 2019. Post a stellar growth of 44% in revenues in FY2019, the revenue might witness contraction in current fiscal due to demand slowdown in end user segments, primarily the Heavy Commercial Vehicles (HCVs) segment. The management has employed several cost-cutting measures, which may partially mitigate the impact of negative operating leverage on profitability.

The rating strengths are partially offset by modest coverage indicators and return indicators; and high exposure to cyclical automotive segments. While the company supplies to various end-user industries, most of the revenue is derived from the HCV segment, exposing it to segmental concentration risks and inherent cyclicality in the CV industry. ICRA draws comfort from the management guidance that NIL's investments (Rs. 173.9 crore as on March 2019) in Group companies could be liquidated to tide over any short-term cash flow mismatches, if any. Going forward, NIL does not have any major capital expenditure plans in the near term, and incremental cash flows will be primarily utilised towards debt repayment and working capital cycle, which will lend support to its credit profile over the near to medium term.

Key rating drivers and their description

Credit strengths

Financial flexibility supported by being part of strong promoter group; historical track record of fund infusion by the promoter by way of investment purchase and short-term loans/advances - The promoter has regularly extended financial support through purchase of shares invested by NIL in other CK Birla group companies, which has supported liquidity despite weak financial performance. Further, NIL has also received timely financial support in the form of short-term loans from other CK Birla group companies. ICRA expects the promoter group to continue to provide need-based support, if required, in future.

Diversified and reputed clientele adding stability to revenues - The company supplies various ferrous casting components to reputed customers like Tata Cummins Private Limited, Daimler India Commercial Vehicles Private Limited and JCB India Limited in the domestic market and clients like John Deere and ZF Group in overseas markets. While competition remains stiff with the presence of several casting suppliers, NIL's established relationships with its clients and improved wallet share with most of them over the last 2-3 years provides comfort.

Healthy geographical diversification with exports driving 20.1% of overall revenues during FY2019 - The company exports components like axle arm and hubs, hitch frames and differential cases to countries like USA, Spain, Germany, the UK and other geographies.

Credit challenges

Large debt-funded investment in Group companies resulted in deterioration of capital structure - The company invested Rs. 126 crore in Avtec Limited, which was funded through short-term loans. While operating profits witnessed handsome 260bps improvement to 8.9% in FY2019, sharp increase in debt level weakened overall leverage and coverage indicators. The company is in the process of divesting one of its non-core assets, the proceeds from which will be primarily deployed towards retiring Rs. 125 crore short-term loan availed for investments in a Group company.

Moderate coverage indicators, as compared to peers in similar rating category - The company's coverage indicators are moderate with Total debt/OPBDITA at 4.6 times and NCA / total debt at 12% in FY2019, which is largely because of a Rs. 125-crore short-term loan raised for the investment. With the repayment of the said loan, the coverage indicators are expected to improve significantly with Total debt to OPBDITA reducing to sub 2.5 times levels.

Most revenues from cyclical HCV segment exposing company to segmental concentration risks; current headwinds in automotive sector will keep overall cash flows under check over the next 9-12 months - The company derives over 62% of its revenues from the HCV segment, which is cyclical in nature. Given current headwinds in the domestic automotive sector, NIL's revenue and profitability indicators may witness moderation in the current fiscal.

Liquidity position: Adequate

The liquidity position is adequate, supported by a historical track record of timely financial support from CK Birla group entities and the promoter in times of exigencies. As on March 31, 2019, the company had cash balances to the tune of Rs.0.2 crore and investments in group companies worth Rs.169.6 crore which could be liquidated in times of short-term exigencies. Overall working capital utilisation was about ~93% during the last six months, providing liquidity buffer of Rs 3-4 crore to meet any short-term exigencies. The company does not have any major debt funded capex plans. Sale of the Thane land parcel remains crucial, as it could result in interest saving of ~Rs. 1.2 crore per month, thereby aiding the liquidity position. The management has indicated that the sale process is in the final stages and is expected to be completed by January 2020.

Rating sensitivities

Positive triggers: There could be a positive trigger to NIL's ratings, if on a sustained basis, the company maintains TD/OPBDITA below 3.0 times and improves its liquidity such that overall utilisation in working capital limits is less than 80%, providing adequate buffer in times of exigencies.

Negative triggers: Negative pressure on NIL's rating could arise if the company is unable to pay off its short-term loans raised for investment in group company, Avtec, in the next 6–9 months or steep reduction in profitability such that Total debt/OPBDITA increases to over 4.5 times or any incremental debt-funded investments in other Group companies.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto component manufacturers
Parent/Group Support	The rating assigned to NIL factors in the high likelihood of its parent, the CK Birla Group, extending financial support to it because of close business linkages between them (NIL being one of the holding companies of Avtec Limited). We also expect the Group to be willing to extend financial support to NIL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of the CK Birla Group having extended timely financial support to NIL, whenever a need has arisen.
Consolidation/Standalone	The rating is based on Standalone financials

About the company

Incorporated in 1932, Neosym Industry Limited (formerly known as "The Indian Smelting and Refining Company Limited"), is a part of the CK Birla Group. NIL is engaged in manufacturing grey and SG Iron castings **for the automotive, agriculture, earthmoving and engineering industries.** Initially, the company used to manufacture non-ferrous castings before diversifying into ferrous castings. The company derives ~20% of its revenues from overseas markets like USA, Spain, the UK and Thailand, where it exports components like axle arm and hubs, hitch frames, torque plates and differential cases. The company has a reputed clientele, which includes Tata Cummins Private Limited, Daimler India Commercial, ZF Steering Gears, John Deere India, etc. The company sources its raw material requirement indigenously. The company has a manufacturing unit in Pune (Maharashtra) with a capacity of 69,600 MT/ annum.

In FY2019, the company reported a net profit of Rs. 2.7 Crore on an operating income of Rs. 555.7 crore, as compared to a net loss of Rs. 3.7 crore on an operating income of Rs. 383.8 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	383.8	555.7
PAT (Rs. crore)	-3.7	2.7
OPBDIT/OI (%)	6.3%	8.9%
RoCE (%)	2.2%	6.6%
Total Debt/TNW (times)	0.4	0.9
Total Debt/OPBDIT (times)	4.1	4.6
Interest coverage (times)	1.7	1.8

Status of non-cooperation with previous CRA:

CRA	Status of Non-Cooperation	Date of Press Release
CARE Ratings Limited	CARE BBB/Stable/A3; Issuer Not Cooperating	April 05, 2018

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					12-Sep-2019	29-May-2019	14-June-2018		
1	Term loan	Long Term	54.53	48.05	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	NA	NA
2	Fund based	Long Term	60.00	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	NA	NA
3	Non-fund based	Long/Short Term	24.00	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	NA	NA
4	Proposed	Long Term	16.47	NA	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	NA	NA

*Amount in Rs. Crore; * as on August 31, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term term loans	October 2016	NA	March 2023	54.53	[ICRA]BBB+(Negative)
NA	Long-term proposed	NA	NA	NA	16.47	[ICRA]BBB+(Negative)
NA	Long-term fund based	NA	NA	NA	60.00	[ICRA]BBB+(Negative)
NA	Long/Short-term non-fund based	NA	NA	NA	24.00	[ICRA]BBB+(Negative)/ [ICRA]A2

Source: Company

Corrigendum

Previously published rating rationale dated September 12 , 2019 has been corrected with revisions as detailed below:
Revision on Page 2 – The percentage of exports has been corrected to one decimal point , details regarding cash balance and investments has been added in the liquidity section
Revision on Page 4- Financial metrics have been revised in accordance with audited numbers
Revision on Page 5 –Date of rating exercise in FY2019 corrected

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About ICRA Limited:

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