

Press Release

Pal Shellcast Private Limited

April 24, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 16.71 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable
Short Term Rating	SMERA A3+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (**read as SMERA BBB**) and short term rating of '**SMERA A3+**' (**read as SMERA A three plus**) on the Rs. 16.71 crore bank facilities of Pal Shellcast Private Limited. The outlook is '**Stable**'.

Pal Shellcast Private Limited (PSPL) is an Ahmedabad-based company, engaged in the manufacture of cylinder liners, sleeves and air and water cooled barrels used in internal combustion engines. The company has an aggregate installed capacity of 15,840 tons (foundry) and 36 lakh pieces (machining of liners and barrels). The manufacturing plants are located at Odhav and Changodhar at Ahmedabad.

Key Rating Drivers

Strengths

• Experienced management

Incorporated in 1981, PSPL was promoted by Mr. H. G. Dhingra who possesses experience of over three decades in the above mentioned business. Currently, the second generation comprising Mr. Parampalsingh H. Dhingra and Mr. Gurpreetsingh H. Dhingra are responsible for the day-to-day operations of the company.

• Prudent working capital management

PSPL's prudent working capital management is marked by GCA days of 90 and 127 in FY2016 and FY2015 respectively. The debtors stood at 57 days and 94 days in FY2016 and FY2015 respectively apart from other current assets which are balances with statutory authorities and advances on account of rental deposits. Also, the inventory is comfortable at 23 days and 26 days in FY2016 and FY2015 respectively. The creditors stood at 75 days in FY2016 as against 138 days in FY2015.

• Healthy financial risk profile

PSPL's healthy financial risk profile is marked by healthy debt protection metrics, comfortable gearing and net worth base. The interest coverage and debt service coverage ratios stood at 3.42 times and 2.30 times respectively in FY2016. The gearing is comfortable marked by debt equity of 0.26 times and 0.56 times in FY2016 and FY2015 respectively. The debt mainly comprises working capital facility of Rs.3.93 cr from the bank. The net worth base has been comfortable at Rs.21.93 cr as on 31st March, 2016. While arriving at the networth, SMERA has treated unsecured loan of Rs. 11.75 cr as quasi equity since the amount is from promoters and directors who have undertaken to maintain the amount in the business over the medium term. The financial risk profile is expected to be maintained in the near future due to accretion to reserves and steady revenue growth.

Weaknesses

• Modest profit margins

PSPL's margins are at a modest level marked by EBITDA and PAT of 6.91 percent and 1.40 percent respectively in FY2016. In FY2015, EBITDA and PAT were 6.56 percent and 1.53 percent respectively. This is because of high depreciation incurred on fixed assets as a result of capacity expansion.

• Susceptibility of profit margins to volatility in raw material prices

Most of the raw material - MS scrap and pig iron is sourced locally. During the past three years, raw material cost remained the major cost driver for PSPL in the range of 56 per cent to 79 per cent of the total cost of sales. Accordingly, adverse movements in raw material prices will have an adverse impact on the company's performance.

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that PSPL will maintain a stable outlook in the medium term while benefitting from its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' if PSPL scales up operations while improving profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenue or if the working capital cycle deteriorates.

About the Rated Entity - Key Financials

For FY2016, PSPL reported profit after tax (PAT) of Rs.1.26 cr on total operating income of Rs.90.07 cr, as compared with PAT of Rs.1.34 cr on total operating income of Rs.87.63 cr in FY2015. The tangible net worth stood at Rs.21.93 cr in FY2016 as compared to Rs.17.02 cr in FY2015.

Status of non-cooperation with previous CRA (if applicable)

CARE vide its release dated December 30, 2016 suspended the ratings of [CARE] BBB- (Stable) [CARE] A3 assigned to the Rs. 8.38 crore bank facilities of Pal Shellcast Private Limited. The suspension follows its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	31-Mar-2022	5.60	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	31-Jan-2020	0.40	SMERA BBB / Stable

Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.55	SMERA BBB / Stable
EPC cum EBP/EBD*	Not Applicable	Not Applicable	Not Applicable	6.50	SMERA A3+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.66	SMERA A3+

*Contains sublimit of PCFC cum EBRD of Rs.4.50 crore and a sublimit of cash credit cum ODBD of Rs.2.00 crore.

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

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