

Press Release

Pal Shellcast Private Limited

July 04, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' (**read as ACUITE BBB**) and short term rating of '**ACUITE A3+**' (**read as ACUITE 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 manufacture of cylinder liners, sleeves and air and water cooled barrels for internal combustion engines. Its manufacturing plant is located at GIDC, Odhav, and Changodhar with an aggregate installed capacity of 22,000 tons for furnaces and 27 lakh pieces of machining. The ratings continue to draw comfort from the experienced promoters and healthy financial risk profile. However, the aforementioned strengths are partially offset by low profit margins, drop in revenues and highly fragmented domestic auto industry.

Key Rating Drivers

Strengths

- **Experienced management**

Pal Shellcast Private Limited (PSPL) is an Ahmedabad based company engaged in manufacture of cylinder liner, sleeves and barrel. The management led by Mr. H. G. Dhingra has an experience of more than three decades in the above mentioned business. Currently, the second generation is into the business.

- **Healthy financial risk profile**

PSPL's moderate financial risk profile is marked by healthy debt protection metrics, comfortable gearing and comfortable net worth. The interest coverage and debt service coverage ratios have been at 4.59 times and 2.82 times respectively in FY2018. The gearing is comfortable marked by debt equity of 0.56 times and 0.38 times in FY2018 and FY2017 respectively. The debt mainly comprises of unsecured loans from directors and relatives of Rs. 1.22cr and working capital facility of Rs.7.40 crore from bank. The team has treated unsecured loans of Rs. 13.16 crores as quasi equity as this amount is from the promoters and directors who have undertaken to maintain this amount in the business over the medium term. The net worth base is comfortable at Rs.29.85 crore as on 31st March 2018.

Weaknesses

- **Moderation in profit margins**

PSPL's margins are at a modest level marked by EBITDA and PAT of 5.8% and 1.47% in FY18 lower than 6.91 percent and 1.40 percent in FY2017 owing to the increasing RM prices and the same not absorbed by the customers.

- **Susceptibility of profit margins to raw material**

Majority of raw material, i.e., 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 60% - 80% of the total cost of sales. Accordingly, any adverse movement in prices of raw materials will have an adverse impact on the performance of the company.

Analytical Approach

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

Outlook: Stable

ACUITE believes that PSPL will maintain a stable business profile 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 revenues or if the working capital cycle deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	161.46	107.99	90.07
EBITDA	Rs. Cr.	9.36	7.77	6.22
PAT	Rs. Cr.	2.37	2.04	1.26
EBITDA Margin	(%)	5.80	7.19	6.91
PAT Margin	(%)	1.47	1.89	1.40
ROCE	(%)	12.46	15.34	13.78
Total Debt/Tangible Net Worth	Times	0.56	0.38	0.26
PBDIT/Interest	Times	4.59	3.98	3.42
Total Debt/PBDIT	Times	1.78	1.30	0.92
Gross Current Assets (Days)	Days	88	93	91

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Apr-2017	Term Loan	Long Term	INR 5.6	ACUITE BBB / Stable
	Term Loan	Long Term	INR 0.4	ACUITE BBB / Stable
	Proposed Cash Credit	Long Term	INR 2.55	ACUITE BBB / Stable
	Packing Credit	Short Term	INR 6.5	ACUITE A3+
	Bank Guarantee	Short Term	INR 1.66	ACUITE A3+

***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	ACUITE BBB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE BBB / Stable

PC/PCFC	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.66	ACUITE A3+

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About Acuité Ratings & Research:

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