

Press Release

Pal Shellcast Private Limited

July 08, 2019

Rating Reaffirmed & Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.15.85 crore bank facilities of Pal Shellcast Private Limited (PSPL). The outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs.0.86 crore bank facilities of Pal Shellcast Private Limited (PSPL). 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.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profiles PSPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management and long track of operations

PSPL is promoted by Mr. Hardevsingh G. Dhingra. The company is engaged in the business of manufacturing and supplying cylinder liners, cylinder blocks, sleeves and air & water cooled barrels to automobile OEMs and after markets. The company was incorporated in 1981 and has an experience of more than 35 years in the aforementioned line of business. This has helped the company in establishing good relations with clients and suppliers. The promoter is ably supported by the second generation of the Dhingra family. Acuite believes that the experience of the promoter and long track of operations will help the business risk profile of the company in the medium future.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at around Rs.20.83 crore as on 31 March, 2019 (Provisional) as against Rs.16.61 crore as on 31 March, 2018. The improvement in net worth is on account of accretion to reserves. The company has followed a moderately aggressive financial policy as reflected by peak gearing of 1.79 times over the last three years through 2017-18. The gearing of the company has further improved to around 1.50 times as on March 31, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.11 times as on 31 March, 2019 (Provisional) as against 3.53 times as on 31 March, 2018. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained healthy at 7.17 times in FY2019 (Provisional) and 5.02 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.30 times as on 31 March, 2019 (Provisional) as against 0.21 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 3.53 times for FY2019 (Provisional) as against 2.90 times in FY2018. Acuite believes that the financial risk profile of PSPL will continue to remain moderate over the medium term on account of its improving scale of operations and moderately aggressive financial policy.

• Reputed clientele

PSPL is engaged in the business of manufacturing cylinder liners, cylinder blocks, sleeves and air & water cooled barrels. The company supplies their manufactured products to automobile OEMs like Mahindra & Mahindra, Tractors and Farm Equipments Limited (TAFE), Eicher Engine Limited, Daimler India Commercial Vehicles Private Limited and General Motors India Private Limited among others. PSPL also enjoys long business relations with various automobile OEMs like Mahindra & Mahindra ~ 38 years, Greaves Cotton Limited ~ 36 years, TAFE Motors and Tractors Limited ~ 33 years and MS Motor Service International GMBH (Germany) ~ 18years. Acuite believes having long standing business relations with automobile OEMs will help PSPL in procuring recurring orders in the near future.

Weaknesses

• Susceptibility to changes in prices of raw materials

Raw materials like MS scrap and pig iron, which are sourced locally, are the major cost drivers. These raw materials occupy 60%-70% of the total cost. Acuite believes any changes in the prices of raw materials is likely to impact the financial risk profile of PSPL.

• Competitive industry scenario

The automobile ancillary industry has become extremely competitive. Increase in competition has further cause thinning of operating margins from 7.19 percent for FY2017 to 5.38 percent for FY2019 (Provisional). The Return on Capital Employed (ROCE) has averaged at 13.12 percent for three years ending FY2019 (Provisional). Sustaining the margins in a competitive industry scenario will be a key monitorable in the future.

Liquidity Position

PSPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.06 crore to Rs.9.33 crore during the last three years through 2018-19, while its maturing debt obligations were in the range of Rs.0.96 crore – Rs.1.56 crore over the same period. The cash accruals of the company are estimated to remain around Rs.9.30 crore – Rs.11.54 crore during 2020-22 while its repayment obligation are estimated to be around Rs.1.00 crore – Rs.1.50 crore. The company's operations are relatively less working capital intensive as marked by gross current asset (GCA) days of 75 in FY2019 (Provisional). This has led to moderate reliance on working capital borrowings, the cash credit limit in the group remains utilized at 75 percent during the last 12 months period ended May 2019. The company maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2019 (Provisional). The current ratio of PSPL stands at 0.98 times as on March 31, 2019 (Provisional). The company is likely to incur capex of Rs.5.00 crore – Rs.7.00 crore over the medium term which is expected to be funded by internal accruals. Acuite believes that the liquidity of PSPL is likely to remain adequate over the medium term on account of healthy cash accruals and no major repayments over the medium term.

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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	196.09	161.22	107.99
EBITDA	Rs. Cr.	10.54	9.16	7.77
PAT	Rs. Cr.	4.22	2.29	2.04
EBITDA Margin	(%)	5.38	5.68	7.19
PAT Margin	(%)	2.15	1.42	1.89
ROCE	(%)	11.51	12.53	15.34
Total Debt/Tangible Net Worth	Times	1.50	1.79	0.38
PBDIT/Interest	Times	7.17	5.02	3.98
Total Debt/PBDIT	Times	2.87	3.17	1.30
Gross Current Assets (Days)	Days	75	86	93

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jul-2018	Term Loan	Long Term	5.60	ACUITE BBB / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.45	ACUITE BBB / Stable (Reaffirmed)
	Packing Credit	Short Term	9.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	1.66	ACUITE A3+ (Reaffirmed)
24-Apr-2017	Term Loan	Long Term	5.60	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	0.40	ACUITE BBB / Stable (Assigned)
	Proposed Cash Credit	Long Term	2.55	ACUITE BBB / Stable (Assigned)
	Packing Credit	Short Term	6.50	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.66	ACUITE A3+ (Assigned)

***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	3.60	ACUITE BBB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE BBB / Stable (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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