

Press Release

Pal Shellcast Private Limited

August 06, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité 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**) on the Rs.16.71 crore bank facilities of Pal Shellcast Private Limited (PSPL). The outlook is '**Stable**'.

About the rated entity

Shellcast Private Limited (PSPL), incorporated in 1981 is Ahmedabad based company. It is engaged in the manufacturing of cylinder liners, blocks and sleeves. The components manufactured by the company are majorly used in tractors and other vehicles. The company derives around 84% of revenue from the sale of cylinder liner and remaining from sale of blocks and sleeves. The company has 6 manufacturing units, located at GIDC, Odhav and Changodhar with an aggregate installed capacity of 40,928 tons.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PSPL.

Key Rating Drivers

Strengths

- **Experience promoters and established track record of operation**

PSPL is promoted by Mr. H.G. Dhingra and has experience of more than 3 decades in the business. The company has established track record of 35 years in the industry. This has enabled PSPL in establishing strong relationship with clients and suppliers. The company is further managed by second generation of Dhingra family.

Acuité believes that the group will continue to benefit from the promoters' experience and established track record of operations in improving its business risk profile over the medium term.

- **Increase in total operating income in FY21** The company reported total operating income of Rs.174.20 crore in FY21(Prov.) against Rs. 165.48 crore in FY20, registering y-o-y growth of 5.27%. The company had reported revenue of Rs.194.23 crore in FY19. The same declined in FY20 on account of slowdown in automobile sector coupled with transition of the industry from BS4 to BS6 emission norms. However, the PSPL registered growth in FY21 despite COVID-19 lockdown, during which operations across all the plants were halted. The company reported PAT of Rs.2.97 crore in FY21(Prov.) against Rs.2.05 crore in FY20. The PAT improved on account of profit from sale of asset. The PAT margin also increased to 1.70% in FY21(Prov.) from 1.24% in FY20.

- **Moderate financial risk profile**

The financial risk profile of the company continues to remain at moderate level with debt-equity ratio of 1.09 times as on March 31, 2021 (Prov.); improved marginally from 1.40 times as on March 31, 2020. The tangible net worth further improved to Rs. 24.32 crore as on March 31, 2021 (Prov.) as against Rs.21.34 crore as on March 31, 2020 on account of accretion of profit to reserves. The debt-EBITDA improved from 3.10

times during FY20 to 2.39 times in FY21 (Prov.), backed by decline in total debt. However, the Total Outstanding Liabilities/Tangible Net Worth has deteriorated to 2.94 times as on March 31, 2021 (Prov.) as against 2.77 times as on March 31, 2020. This is due to increase in trade payables from Rs. 24.30 as on March 31, 2020 to Rs.35.98 crore as on March 31, 2021 (Prov.). The Interest Coverage Ratio (ICR) has however increased from 5.96 times during FY20 to 7.33 times during FY21 (Prov.), on account of decline in interest cost during FY21.

The financial risk profile expected to remain at moderate level over the medium term on account of its improving scale of operations and absence of any major debt.

Weaknesses

- **Decline in operating profit level and margin**

The EBITDA level declined to Rs.7.95 crore in FY21 (Prov.) from Rs.9.37 crore in FY20. As the operations were halted across 6 plants during COVID-19, the company registered lower sales during Q1FY21. This resulted in under absorption of fixed overheads, which impacted PBILDT level and margin. Hence, PBILDT margin also declined to 4.56% in FY21 (Prov.) against 5.66% in FY20.

- **Elongated GCA days with increase in debtors' period.**

The GCA days of the company increased to 107 days as on March 31, 2021 (Prov.) against 80 days as on March 31, 2020. This is due to elongation of receivables period from 50 days during FY20 to 75 days during FY21 (Prov.). The outstanding receivables as on March 31, 2021 (Prov.) remained at Rs.35.71 crore as against Rs.21.75 crore as on March 31, 2020. The outstanding receivables had increased during the year due to delayed realization of receivables on account of COVID-19. The company has vintage relationship with client and extends credit period of 30 days to 90 days. Similarly, the creditors period also increased during FY21 to 115 days from 89 days in FY20. The inventory period remained at similar level at 23 days during FY21 (26 days in FY20). The fund based utilization remained at moderate level at around 67% for past 12 months ending June 2021.

- **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%-65% of the total cost. Albeit, the company has long standing relationship with client which helps in mitigating the increase in prices of raw materials to some extent, however, any significant increase in same is likely to impact the financial risk profile of PSPL.

- **Intense competition coupled with slowdown in the automobile industry, transition to strict emission norms and the impact of COVID-19**

The automobile ancillary industry has become extremely competitive. Further, the industry was already in slowdown pre-COVID-19, when it was recording a drop in sales figure quarter on quarter, this was further hurt automobile companies and the ancillary with the introduction of BS6 emission norms which had a negative impact on the financials. At the same time, the Covid-19 impacted the operations of the company/ this has impacted the financial risk profile of auto ancillary manufacturing companies. Revenues of the industry contracted by 71.8 per cent in the June 2020 quarter impacted by the two-month lockdown in April and May 2020. The industry incurred a net loss equivalent to 19.2 per cent of the total income during the quarter. The auto ancillaries index continued to see positive returns in the months of July and August 2020. In September 2020, however, the returns on the index were a tad lower. Many auto parts manufacturers have either halted or deferred their capital expenditure plans in the ongoing financial year as they battle a prolonged slowdown in the domestic automobile market. Acuité believes that sustaining the margins in a competitive industry scenario coupled with slowdown and the management's ability to tackle the impact of Covid-19 will be a key monitorable in the future.

Rating Sensitivities

- Improving scale of operations while improving profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

PSPL reported net cash accruals (NCA) of Rs.8.65 crore during FY21 which provides sufficient cushion against the maturing debt obligation of Rs.1.55 crore. The company had not availed any COVID-19 moratorium or any other COVID-19 loan. The company had further availed term loan Rs.2.70 crore during FY21 in order to partly fund the purchase of gross block asset. The company is expected to generate NCA between Rs.9.0-Rs.11.0 crore during FY22-FY24 against which the repayment obligation expected to remain in the range of Rs.1.30 crore to Rs.2.40 crore during the same period. Reliance on working capital borrowings has remained moderate with the limits being utilized at 67 percent during the past 12 months' period ended June 2021. PSPL maintains cash and bank balances of Rs.2.86 crore as on March 31, 2021 (Provisional). The current ratio stands at 0.95 times as on March 31, 2021 (Provisional). The same is due to increase in trade payables outstanding as on March 31, 2021 (Provisional). The company is likely to incur yearly capex of Rs.1.50-Rs. 2.00 crore during FY22-FY24. While capex that is expected to be undertaken in FY22 is to be funded through term loan (not yet proposed/sanctioned). The capex in FY23-FY24 would be funded through internal accruals.

Outlook: Stable

Acuité believes that the group will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability level and margins, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	174.20	165.48
PAT	Rs. Cr.	2.97	2.05
PAT Margin	(%)	1.70	1.24
Total Debt/Tangible Net Worth	Times	1.09	1.40
PBDIT/Interest	Times	7.33	5.96

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Oct-2020	Term Loan	Long Term	2.00	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.46	ACUITE BBB/Stable (Reaffirmed)
	Packing Credit	Short Term	10.00	ACUITE A3+

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
				(Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)
06-Aug-2019	Term Loan	Long Term	3.60	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.86	ACUITE BBB/Stable (Reaffirmed)
	Packing Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)
08-July-2019	Term Loan	Long Term	3.60	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.86	ACUITE BBB/Stable (Assigned)
	Packing Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Central Bank of India	Term Loan	October 2016	8.8%	September 2025	3.29	ACUITE BBB/Stable (Reaffirmed)
Proposed Long Term Bank Facility		Not Applicable	Not Applicable	Not Applicable	1.17	ACUITE BBB/Stable (Reaffirmed)
Central Bank of India	EPC/EBD	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Central Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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