

## Press Release

Pal Shellcast Private Limited

October 17, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.50	-	ACUITE A3+   Reaffirmed
Bank Loan Ratings	3.56	ACUITE BBB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	19.06	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on Rs.19.06 crore bank facilities of Pal Shell Cast Limited (PSPL). The outlook is '**Stable**'.

### Rationale for reaffirmation

The rating reaffirmation factors in the established market position of the company, reputed clientele and extensive experience of the promoters of more than three decades in the auto ancillary industry. The rating also factors the healthy operating performance of the company over the last four years despite the onset of covid-19 pandemic, moderate financial risk profile and adequate liquidity position of the company. However, the rating is constrained by susceptibility of the profitability to volatility in the prices of raw materials and intense competition marked by fragmented nature of the auto ancillary industry.

### About the Company

Pal Shellcast Private Limited (PSPL), incorporated in 1981 is an 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

Acuite has considered a standalone approach to arrive at the rating of Pal Shellcast Pvt Ltd (PSPL)

### Key Rating Drivers

### Strengths

#### Experienced 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. Acuite 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.

### **Healthy operating performance**

Pal Shell Cast Limited (PSPL) has recorded a healthy operating performance in its revenue with a Y-o-Y increase of 22 percent in its revenue. Revenue of the company stood at Rs. 213.23 crore in FY2022 as against Rs.174.72 crore in FY2021. Profitability of the company has decline marginally to 5.22 percent in FY2022 as against 6.22 percent in FY2021. Such decline is on account of increase in repairs and maintenance expenses and freight and forwarding charges. The operating margins however have been range bound between 5.5 to 6 percent historically. PAT margins stood at 1.28 percent in FY2022 as against 1.61 percent in FY2021. Acuité believes that the business risk profile of the company is likely to continue to improve on the back of reputed clientele and healthy demand expected over the near to medium term.

### **Moderate working capital operations**

Working capital operations of the company are moderate marked by GCA days of 95 days in FY2022 as against 104 days in FY2021. GCA days are driven by inventory holding period and debtor collection period Inventory holding period of the company remained at similar levels at 26 days in FY2022 as against 24 days in FY2021. Debtor collection period for PSPL stood at 63 days in FY2022 as against 77 days in FY2021. Major raw materials of the company include Pig Iron and MS Scrap which are procured domestically. Creditor days stood at 95 days in FY2022 as against 117 days in FY2021. Fund based bank limit utilization stood remained low at 43.09 percent for 5 months ended August 2022.

Acuite believes that the working capital operations of the company will remain moderate over the medium term and will continue to remain a key rating sensitivity.

## **Weaknesses**

### **Moderate financial risk profile**

PSPL's financial risk profile is moderate marked by low networth, low gearing and a comfortable debt protection metrics. Tangible networth of the company stood at Rs. 26.60 crore as on 31st March, 2022 as against 23.90 crore as on 31st March, 2021. Improvement in networth comes at the back of accretion of profits to reserves. Gearing of the company stood low at 1.23 times as on 31st March, 2022 as against 1.13 times as on 31st March 2021. Gearing of the company has improved from its peak gearing at 1.62 times as on 31st March 2019. The adjusted gearing of the company (excluding unsecured loans from promoters and related parties) stood at 0.70 times as on 31st March 2022 as against 0.56 times as on 31st March 2021. Tangible networth to Total debt (TOL/TNW) stood at 2.67 times as on 31st March 2022 as against 2.82 times as on 31st March 2021. Net cash accruals to Total Debt (NCA/TD) stood at 0.26 times in FY2022 as against 2.82 times in FY2021. Debt protection metrics of the company remained comfortable with DSCR at 2.89 times in FY2022 as against 3.39 times in FY2021. Interest coverage ratio stood at 7.12 times in FY2022 as against 8.09 times in FY2021. Acuite believes that the financial risk profile is likely to remain moderate in the absence of any debt-funded capital expenditure and any large deviations in incremental working capital requirements.

### **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.

## **Rating Sensitivities**

- Improvement in the scale of operations while maintaining its profitability margin at current level
- Any deterioration or stretch in the working capital cycle

## Material covenants

None

## Liquidity: Adequate

Liquidity of the company is adequate with sufficient net cash accruals as against its debt repayment obligation. Net cash accruals of the company stood at Rs.8.63 crores as against repayment obligations of Rs.1.95 crores in FY2022. PSPL is likely to generate net cash accruals in the range of Rs. 11.90-14.47 crore as against debt repayment obligations of Rs.2.86-2.50 crore. Reliance on bank limit utilization remained low with limits being utilized at 43.09 percent for 5 months ended August 2022. PSPL maintained unencumbered cash balance of Rs.0.64 crore as on 31st March, 2022

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

## Outlook: Stable

Acuité believes that PSPL 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	213.23	174.72
PAT	Rs. Cr.	2.72	2.81
PAT Margin	(%)	1.28	1.61
Total Debt/Tangible Net Worth	Times	1.23	1.13
PBDIT/Interest	Times	7.12	8.09

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Aug	Bank Guarantee	Short Term	3.50	ACUITE A3+ (Reaffirmed)
	Packing Credit	Short Term	11.00	ACUITE A3+ (Reaffirmed)

2021	Term Loan	Long Term	4.56	ACUITE BBB   Stable (Reaffirmed)
06 Aug 2021	Term Loan	Long Term	3.29	ACUITE BBB   Stable (Reaffirmed)
	Packing Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	1.17	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)
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+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)
06 Aug 2019	Proposed Bank Facility	Long Term	0.86	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	3.60	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)
	Packing Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
08 Jul 2019	Term Loan	Long Term	0.86	ACUITE BBB   Stable (Assigned)
	Term Loan	Long Term	3.60	ACUITE BBB   Stable (Reaffirmed)
	Packing Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A3+ (Reaffirmed)
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)
		Short		
	Packing Credit	Term	6.50	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.66	ACUITE A3+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+   Reaffirmed
Central Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+   Reaffirmed
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.56	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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