

Press Release

Santhi Casting Works

September 04, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 23.58 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as SMERA BB) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 23.58 crore bank facilities of Santhi Casting Works. The outlook is '**Stable**'.

Santhi Casting Works (SCW) is a Coimbatore-based proprietorship firm established in 1971 by Mr. M. Kandasamy. The firm is engaged in the manufacturing of grey iron (GI) and Spheroidal graphite (SG) castings. The foundry division located at Coimbatore has an installed capacity of 12000 pieces per annum. The firm caters to automobile companies located at Bangalore, Chennai, Coimbatore and Madurai and also has set-up a wind mill with an installed capacity of 6.10 MV in Narasimanaickenpalayam, Coimbatore. The windmill energy generated from the unit is utilised for captive consumption and surplus production is sold to the government.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SCW is engaged in the manufacturing of grey iron and SG Iron castings for over four decades and has been able to establish long term relations with customers and suppliers. The firm operates a wind mill with an installed capacity of 6.10 MV for captive consumption with the surplus sold to third party. The firm was promoted by Mr. M. Kandasamy who possesses experience of more than four decades in the metal casting industry.

- **Moderate financial risk profile**

The moderate financial risk profile is marked by tangible networth of Rs. 21.92 crore (Provisional) as on 31 March, 2017 as against Rs. 21.09 crore as on 31 March, 2016. The gearing stood at 1.02 times (Provisional) as on 31 March, 2016 as against 1.01 times as on 31 March, 2015. The interest coverage ratio stood at 3.25 times (Provisional) for FY2017 compared to 3.72 times in the previous year. The total outside liabilities to tangible networth (TOL/TNW) stood at 1.16 times (Provisional) as on 31 March, 2017 as against 1.19 times in the previous year. Going forward, SMERA expects the firm to maintain a moderate financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Proprietorship constitution**

Being a proprietorship concern, SCW is exposed to the risk of capital withdrawal.

- **Modest scale of operations**

The firm reported operating income of Rs. 34.12 crore (Provisional) for FY2017 as against Rs. 29.93 crore in the previous year. The scale of operations is modest due to the highly fragmented and

competitive nature of the metal casting industry. The firm mainly focuses on high margin orders and has reported operating margin of 18.99 percent (Provisional) as against 11.95 percent in the previous year. Going forward, SMERA expects the firm to report moderate revenue growth on account of the capacity expansion undertaken and its established market position.

• Customer concentration risk

SCW is exposed to customer concentration risk as around 77 percent of its total sales for FY2017 has been derived from a single customer - ILJIN Automotive Private Limited, an OEM supplier of Hyundai Motors Limited.

• Profitability is vulnerable to volatility in raw material prices

The prices of the major raw material pig iron and iron scrap are highly volatile in nature and these constitute around 50 percent of the total cost of sales. Hence, adverse movements in prices can have significant impact on operations and profitability.

• Working capital intensive operations

The operations are working capital intensive marked by high gross current assets (GCA) of 168 days (Provisional) in FY2017 as against 194 days in the previous year. This is on account of stretched inventory days at 115 (Provisional) for FY2017 as against 121 days in the previous year. However, the liquidity position is comfortable with average cash credit limit utilisation of around 81 percent during the last six months ended 30th April, 2017.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm for arriving at the rating.

Outlook: Stable

SMERA believes that SCW will maintain a stable outlook and benefit from the established track record of operations in the iron and steel industry over the medium term. The outlook may be revised to 'Positive' in case the firm is able to maintain significant growth in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile on account of larger-than-expected working capital requirements or decline in cash accruals.

About the Rated Entity - Key Financials

In FY2016-17 (Provisional), SCW reported net profit of Rs.0.77 crore on operating income of Rs.34.12 crore as against net profit of Rs.3.53 crore on operating income of Rs.29.93 crore in the previous year. The networth stood at Rs. 21.92 crore (Provisional) as on 31 March, 2017 as against Rs. 21.09 crore in the previous year.

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

None

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	31-May-2022	6.08	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	31-Dec-2023	7.50	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4+

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ABOUT SMERA

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