Acuite RATINGS & RESEARCH

Press Release

Santhi Casting Works

September 05, 2019

Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 23.58 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+**' **(read as ACUITE double B plus)** from **'ACUITE BB' (read as ACUITE double B)** and reaffirmed short-term rating of '**ACUITE A4+**' **(read as ACUITE A four plus)** on the Rs.23.58 crore bank facilities of SANTHI CASTING WORKS (SCW). The outlook is **'Stable'**.

The rating upgrade reflects improving revenues year-over-year with repeat orders from reputed clientele, while improving its financial risk profile with adequate liquidity and efficient working capital operations. However, rating is constrained due to modest scale of operations and volatile profitability.

Santhi Casting Works (SCW), established in the year 1971, is a Coimbatore-based proprietorship firm promoted by Mr. M. Kandasamy. SCW is engaged in manufacturing of grey iron (GI) and Spheroidal graphite (SG) castings with an installed capacity of 15,000 tonnes per annum (tpa). The products manufactured are used in automobile, general engineering, textile and power sector. The firm also has 7.6 mega-watt (MW) of captive wind mills to support its operations.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SCW to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
  SCW is engaged in manufacturing of grey iron and SG Iron castings for over four decades and has been able to establish long term relationships with the customers and suppliers. The firm sells its products to customers including ILJIN Automotive Private Limited (ILJIN; leading player in wheel bearings), Addison and Co Ltd, Simpson and Co Ltd among others. The relationship with ILJIN has been for more than a decade and it contributes to about 40 per cent of its total revenues, though significantly reduced from 65 per cent in FY2017. Regular addition of clientele, while maintaining stable revenues from ILJIN has supported in improving its revenues at a compound annual growth rate (CAGR) of 40 per cent over the past three years through FY2019 at Rs.66.9 crore (provisional); this is besides modernisation of its foundry division to improve the efficiencies in production operations. Acuité believes that with diversified product profile, regular client addition is expected to benefit SCW in improving its business risk profile over the medium term.

- **Comfortable financial risk profile**
  The financial risk profile of the firm is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing (debt-to-equity) and TOL/TNW are comfortable at 0.64 times and 0.69 times as on 31 March, 2019 (Provisional) as against 0.97 times and 1.07 times as on 31 March, 2018. Net worth stood at Rs.34.65 crore as on 31 March, 2019 (Provisional) as against Rs.25.41 crore as on 31 March, 2018. Of the total debt of Rs.22.09 crore, long term debt constitutes Rs.9.50 crore, unsecured loans of Rs.2.45 crore and short term debt of Rs.10.14 crore. The debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 4.84 times and 0.40 times in FY2019 (Provisional) as against 4.02 times and 0.30 times in FY2018. In FY2019 (Provisional), the firm did capital expenditure of Rs.11.87 crore in windmill division and foundry division. The same was funded through promoter's capital infusion and internal accruals. The firm

reported net cash accruals (NCA) of Rs.8.91 crore in FY2019 (Provisional) as against Rs.7.37 crore in FY2018. Cash accruals are expected in the range of Rs.8 crore- Rs.10 crore, against repayment obligations of Rs. 2 crore - Rs. 2.25 crore. Acuité believes that with moderate accruals and in absence of major debt funded capital expenditure, the financial risk profile is expected to improve further over the medium term.

- **Moderate working capital cycle**
  Operating cycle of the firm is moderate and improving YoY, which reflected in gross current assets (GCA) at 153 days in FY2017 to 109 days in FY2018 and 103 days in FY2019 (Provisional). The same is due to improvement in inventory cycle from 115 days in FY2017 to 50 days in FY2018 and 36 days in FY2019; Debtors cycle is moderate at around two months historically. This lead to moderate utilisation of its bank lines at about 85 per cent for the last six months through July 2019. Acuite believes that SCW's working capital cycle continues to be at similar levels over the medium term.

Weaknesses

- **Modest scale of operations, though improving and concentration in revenues**
  SCW though in existence for over four decades, its revenues are at modest levels of Rs.29.9 crore in FY2016. Modest revenues were partly owing to revenue concentration with ILJIN Automotive Pvt Ltd; it was as high as about 77 per cent during FY2017 though diluted to about 40 per cent in FY2019. About 90 per cent of its revenues are from casting division, and balance from sale of wind mill power. Its revenues have improved over the past three years to about Rs.66.9 crore in FY2019 (provisional) still modest in the castings industry with more integrated nature of operations and revenue size of more than five hundred crores.

  The scale of operations is modest due to the highly fragmented and competitive nature of the casting industry. The firm reported revenues of Rs.20 crore for 4MFY2019 with orders on hand of about Rs.6 crores and, Acuité believes that its revenue profile is expected to be in the range of Rs.65 crore – Rs. 80 crore over the medium term.

- **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 per cent of the total cost of sales. Operating margin fluctuating at 18.57 per cent (Provisional) in FY2019 as against 19.27 per cent in FY2018 and 19.29 per cent in FY2017. Hence, adverse movements in prices can have impact on operations and profitability.

- **Proprietorship constitution**
  Being a proprietorship concern, SCW is exposed to the risk of capital withdrawal.

Liquidity Position:

The liquidity position of SCW is adequate marked by adequate cash accruals and moderate working capital cycle. It has reported cash accruals of Rs.7.37 crore in FY2018 and Rs.8.91 crore in FY2019 (Provisional). Its expected cash accruals are in the range of Rs.8 crore – Rs. 10 crore against the repayment obligations of Rs.2 crore – Rs. 2.25 crore. The working capital cycle is moderate with GCA days of 103 days in FY2019 (Provisional) as against 109 days in FY2018; resulted in moderate utilisation of its limits at 70-80 per cent over last six months through July 2019. Its current ratio is moderate at 1.35 times in FY2019 (Provisional). Acuité believes that with moderate accruals and moderate working capital operations, the liquidity profile continues to be adequate over the medium term

Outlook: Stable

Acuité believes that SCW will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience and long track record of operations. The outlook may be revised to 'Positive' if the firm registers more than expected growth in its revenues, while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if there is any stretch in its working capital cycle or major debt funded capital expenditure or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	66.96	49.38	34.24
EBITDA	Rs. Cr.	12.43	9.52	6.60
PAT	Rs. Cr.	4.80	3.80	0.86
EBITDA Margin	(%)	18.57	19.27	19.29
PAT Margin	(%)	7.17	7.69	2.50
ROCE	(%)	16.16	13.19	6.65
Total Debt/Tangible Net Worth	Times	0.64	0.97	1.02
PBDIT/Interest	Times	4.84	4.02	3.31
Total Debt/PBDIT	Times	1.73	2.52	3.35
Gross Current Assets (Days)	Days	103	109	153

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Sep-2018	Cash Credit	Long Term	6.00	ACUITE BB / Stable (Issuer not co-operating*)
	Term Loan	Long Term	6.08	ACUITE BB / Stable (Issuer not co-operating*)
	Term Loan	Long Term	7.50	ACUITE BB / Stable (Issuer not co-operating*)
	Letter of Credit	Short Term	4.00	ACUITE A4+ / Stable (Issuer not co-operating*)
04-Sep-2017	Cash Credit	Long Term	6.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	6.08	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.42	ACUITE BB+ / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.08	ACUITE BB+ / Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.08	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.