Press Release

Electrosteel Castings Limited.

April 01, 2017

Rating

Instrument	Size	Rating	Rating Action
Non Convertible Debentures (Series VI)	Rs.125.00 Crores (present outstanding)	IVR A/Stable outlook (IVR Single A /Stable outlook)	Assigned
Non Convertible Debentures (Series VII)	Rs.75.00 Crores (present outstanding)	IVR A/Stable outlook (IVR Single A /Stable outlook)	Assigned

Details of Instruments are in Annexure I

The NCDs (Series VI) shall be repaid in 20 quarterly Instalments after a moratorium of 15 months from the date of placement. The NCDs (Series VII) shall be repaid in 16 quarterly Instalments after a moratorium of 27 months from the date of placement. Instruments with the aforesaid rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

Detailed Rationale

The aforesaid rating derives comfort from ECL's leadership position in the domestic D. I. (Ductile Iron) pipe segment, its long track record, operating efficiency due to strong backward integration, comfortable leverage and buoyant outlook for domestic D. I. pipe market. Improving profitability & cash accruals in the current year, after a decline in the last two years, have also supported the ratings. The rating is however, constrained by the company's exposure to movement in iron ore and finished goods prices, elongated receivable collection period, significant loan repayment obligations impairing debt protection parameters, uncertainty associated with its receipt of bulk compensation against de-allocation of coal mine, its sizeable exposure to one of its associate companies, Electrosteel Steels Ltd., and increasing competition in the D. I. pipe segment. Going forward, ECL's standing in the Indian D. I. pipe market in the midst of increasing competition, continuity of order intake backed by government initiative, improvement in financials, receipt of compensation against the de-allocated coal mine and commencement of operation at captive iron ore mine shall be the major long to medium term rating sensitivities.

List of Key Rating Drivers

- Leadersip position in the domestic D. I. pipe segment.
- Operating efficiency due to strong backward integration.
- Improving profitability & cash accruals in the current year.
- Comfortable leverage.
- Buoyant outlook for domestic D. I. pipe sector.
- Elongated receivable collection period.
- Significant loan repayment obligations impairing debt protection parameters.
- Uncertainty associated with receipt of bulk compensation from Govt. of India against deallocation of coal mine.
- Sizeable exposure to one of the associate companies, Electrosteel Steels Ltd..

Detailed Description of Key Rating Drivers

Rating Strengths

Leadership position in the domestic D. I. pipe segment,
D. I. pipe is the major product of the company having contributed 78% of Gross Sales in FY2016. It is the largest player in the D. I. pipe segment of the country commanding sizeable market share. Other players, though late entrants in the market, are gaining prominence gradually.

Operating efficiency due to strong backward integration
The company also has a pig iron plant of 2.5 lakh tonnes capacity and a coke oven plant of 2.25 lakh tonnes capacity (for production of LAMC). Both these pig iron and LAMC plants are majorly for meeting captive requirement of D. I. Pipe manufacturing to insulate itself from fluctuation in input prices and to ensure assured supply of inputs. In order to improve upon its operating efficiency further, the company has conceptualised in setting up a project comprising development of an iron ore mine and production of iron fillings by processing iron ores in Jharkhand. However, the project is at an initial stage as the execution of lease deed is pending and the matter is subjudice.

Improving profitability & cash accruals in the current year, after witnessing a decline in the last two years
The net profit of the company and the gross cash accruals demonstrated modest improvement in 9MFY17 (refers to April 01 to December 31) after witnessing a decline in FY16 (refers to

April 01, March 31) and FY15. This was mainly driven by reduction in raw material prices which was not fully passed on to the customers. In FY16, the net profit was lower vis-a-vis FY15 due to higher interest expenses which the company has been able to rationalise both in terms of optimisation of borrowings and accessing to/swapping with cheaper source of funds.

Comfortable leverage

Leverage position as on the last three account closing dates was comfortable and witnessed improvement, as reflected in Long-Term Debt-Equity ratio. Overall gearing also improved during the last two years.

Buoyant outlook for domestic D. I. pipe market

Rapid increase in population, urbanisation and industrialisation has led to a significant increase in water requirement, leading to demand overtaking the supply. Increased central government grants under JNNURM scheme, funding from developmental agencies and current Central Government additional impetus to this sector through the AMRUT (Atal Mission for Rejuvenation and Urban Transformation) scheme are matters for significant comfort for the D. I. pipe segment, as the investment in urban water supply and sanitation has increased manifold during the first decade of the 21st century.

Rating Weaknesses

Elongated receivable collection period

Average receivable collection period has generally been on the higher side mainly due to supply to government parties and export debtors. However, the quality of debtors is generally good and there has not been any provision and/or write-off for bad & doubtful debt in the last three years.

Significant loan repayment obligations impairing debt protection parameters.

During the next six years, the company has significant amount of debt repayment obligations, vis-à-vis its gross cash accruals (GCA). The company expects to ease out the situation with gradual increase in the level of GCA over the years and receipt of bulk compensation from Govt. of India against deallocation of its Parbatpur coal mine.

Uncertainty associated with receipt of compensation against deallocation of coal mine

The Hon’ble Supreme Court had deallocated many coal blocks in September 2014, including the Parbatpur coal mine which was hitherto allocated to ECL, challenging the reasonableness of the allocation. As all the beneficiaries of such allocation (including ECL) had spent individually a considerable amount of money for development of mines & the related infrastructure, the Government of India had passed relevant legislation to provide compensation to the parties whose blocks were deallocated. However, as the Government of India has not been willing to pay the claimed compensation amount, all the beneficiaries (including ECL) filed a writ petition in hon'ble Delhi High Court. While the hon'ble Court has since disposed of the matter, the case is still sub-judice. Based on the merit of the case, the company is confident of receiving the compensation latest by FY2019. Infomerics believes that the final legal verdict on payment of compensation for the allocation of coal mine is likely to be favourable for Electrosteel Castings Ltd.

Sizeable exposure to one of its associate companies, Electrosteel Steels Ltd.
ESL, the major associate company of ECL, which has been commissioning a large integrated steel and D. I. Pipe project & a 120 MW captive power project at Jharkhand, has been facing many challenges from the project implementation stage owing to delays in project commissioning and bearish steel industry scenario. The project is still to be implemented fully, although a significant part of the capacity has already been on stream. Owing to delay in project implementation, the company went into CDR and the lenders had finally invoked the SDR in 2015. The group has an outstanding exposure of approximately Rs.1,300.0 crores in ESL which has been yielding zero return currently. Reportedly, ESL earned a modest level of EBIDTA in 9MFY17.

Analytical Approach: Standalone

Applicable Criteria
Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation

About the company
ECL, incorporated as "Dalmia Iron and Steel Limited" in November, 1955, currently belongs to Shri G. Kejriwal and his family of Kolkata. The company manufactures DI pipes, CI (Cast Iron) pipes and DI fittings, besides producing pig iron and low ash metallurgical coke (LAMC) majorly for captive consumption with DI pipes and fittings being the major products. ECL is one of the largest players in the D. I. Pipe industry with aggregate

manufacturing capacity being 2.8 lakh tones, which is being operated at full capacity. On a standalone basis, it enjoys sizeable market share in this segment. The company has three manufacturing units - two in West Bengal and one in Tamil Nadu. DI pipes are primarily used for water supply, sewerage and transmission with ECL's major customers being government departments, urban local bodies and large infrastructure players.

During FY2016, the company, on a standalone basis, reported a Profit After Tax of Rs.59.0 crores (Rs.72.6 crores in FY2015) on a Total Operating Income of Rs.1,972.3 crores (Rs.2153.8 crores in FY2015). During 9MFY17, the company reported a PAT of Rs.66.2 crores (Rs.31.1 crores in 9MFY16) on a Total Operating Income of Rs.1313.0 crores (Rs.1424.5 crores in 9MFY16), on a standalone basis.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: As per **Annexure II**

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:
Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Instrument

Name of Instrument	Date of allotment	Coupon Rate	Maturity Date	Size of the issue (Rs. Crores)	Rating Assigned alongwith Rating Outlook
NCD (Series VI)	March 07, 2017	11.75%	March 07, 2023	125.00	IVR A/Stable outlook (Single A/Stable Outlook)
NCD (Series VII)	March 07, 2017	12%	March 07, 2023	75.00	IVR A/Stable outlook (Single A/Stable Outlook)

Annexure II: Rating History of the last three years

Name of Instrument	Current Ratings			Rating History		
	Type	Proposed Amount (Rs. Crores)	Rating	Date & Rating Assigned in 2015-16	Date & Rating Assigned in 2014-15	Date & Rating Assigned in 2013-14
Non Convertible Debentures	Long Term	130.00	IVR A/ Stable Outlook (withdrawn). Assigned on November 01, 2016 and withdrawn on March 21, 2017.	Nil	Nil	Nil