

Infomerics Valuation and Rating Pvt Ltd



PRESS RELEASE

Infomerics has assigned IVR A / Stable Outlook (pronounced IVR single A with Stable Outlook) rating to the proposed Non Convertible Debenture programme of Electrosteel Castings Ltd. for an amount of Rs.130 crores

Rating & Definition

Infomerics has assigned IVR A / Stable Outlook (pronounced IVR single A with Stable Outlook) rating to the proposed five year Non Convertible Debenture programme of Electrosteel Castings Ltd. (ECL) for an aggregate amount of Rs.130 crores. These NCDs are proposed to be placed in two tranches (Tranche I: Rs.100 Crores and Tranche II: Rs.30 Crores) with tranche I being repayable in 16 quarterly Installments after a moratorium of one year and Tranche II being repayable in 12 quarterly Installments after a moratorium of two years. Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

Rating 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. The rating is however, constrained by the company's exposure to movement in iron ore and finished goods prices, declining profitability (although witnessed a spurt in Q1FY17), 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. yielding no return 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 and receipt of compensation against the de-allocated coal mine shall be the major long to medium term rating drivers.



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Company Background

ECL, incorporated as Dalmia Iron and Steel Ltd. in November, 1955, has been belonging to Shri G. Kejriwal & his family of Kolkata since 1965. The company currently manufactures DI pipes, CI (Cast Iron) pipes and DI fittings, besides producing pig iron and low ash metallurgical coke (LAMC) majorly for captive consumption. DI pipes and fittings contributed 78% of gross sales in FY16. Its aggregate D. I. Pipe manufacturing capacity is 2.8 lakh tones which is being operated at 100% capacity. 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. ECL is the largest player in the D. I. pipe segment of the country commanding 22% market share, while its aggregate market share alongwith a group company is over 40%. 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 the quarter ended June 30, 2016 (Q1FY17), the company reported a PAT of Rs.10.1 crores on gross sales of Rs.421.5 crores, on standalone basis.

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