

Rating Advisory

March 30, 2017 | Mumbai

Simplex Castings Limited

Advisory as on March 30, 2017

This rating advisory is provided in relation to the rating of Simplex Castings Limited

The key rating sensitivity factors for the rating include:

- Improvement in revenue and profitability
- Working capital management
- Capital expenditure (capex) plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Simplex Castings Limited (SCL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If SCL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company

SCL was originally established as a partnership firm in 1971; it was reconstituted as a private limited company in 1980, and then as a public limited company in 1993; SCL is listed on the Bombay Stock Exchange. The company is promoted by Mr Ketan Shah and his family. It manufactures heavy engineering castings in grey cast iron, alloy cast iron, and stainless steel, which find application in industries such as railways, steel, oil and gas, power, and defence.

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April 12, 2016
Mumbai

Simplex Castings Limited

Rating outlook revised to 'Positive'; Ratings placed on 'Notice of withdrawal'

Total Bank Loan Facilities Rated	Rs.1367.5 Million
Long Term Rating	CRISIL BB+ /Positive (Outlook revised from 'Stable' and rating reaffirmed)
Long Term Rating	CRISIL BB+ /Positive (Outlook revised from 'Stable' and rating reaffirmed; Notice of Withdrawal)
Short Term Rating	Notice of Withdrawal

(Refer to Annexure 1 for Facility-wise details)

CRISIL has revised its rating outlook on the long-term bank facilities of Simplex Castings Limited (SCL) to '**Positive**' from 'Stable', while reaffirming the rating at 'CRISIL BB+'. CRISIL has also placed the ratings on SCL's long-term and short-term working capital bank facilities (cash credit/bank guarantee/letter of credit/foreign exchange forward) on '**Notice of Withdrawal**' for 180 days at SCL's request. The ratings will be withdrawn at the end of the notice period, in line with CRISIL's policy on withdrawal of ratings on bank facilities.

The outlook revision takes into account SCL's improved operating performance and liquidity. Revenue increased to Rs.1.43 billion for the nine months ended December 31, 2015, from Rs.1.13 billion for the corresponding period of 2014-15 (refers to financial year, April 1 to March 31), backed by increasing demand from end-user industries, mainly Indian Railways. SCL's revenue for 2015-16 is expected at Rs.2.00 billion with accrual of Rs.120 million; accruals increasing from Rs.91 million in FY15. The company had order book of about Rs.1 billion to be executed over 9-12 months, provides near-term revenue visibility. The faster pace of execution has led to lower inventory and this along with support from enhanced bank lines has resulted in moderation in utilization of bank lines with average utilization at 78 per cent for 8 months through February 2016 vis-à-vis over 91 per cent in the past. CRISIL believes sustenance of improved operating performance along with controlled working capital management will remain a key monitorable over the near to medium term.

The ratings continue to reflect the extensive experience of SCL's promoters in the steel castings and fabrication business, established clientele, and improving financial risk profile supported by increasing cash accrual and comfortable capital structure. These strengths are partially offset by working capital-intensive operations, and susceptibility to demand from end-user industries and to volatility in raw material prices.

Outlook: Positive

CRISIL believes SCL's financial risk profile will improve over the medium term because of increasing cash accrual and gradual moderation in overall working capital cycle. The ratings may be upgraded if steady execution of orders and improved working capital management lead to better liquidity. Conversely, the outlook may be revised to 'Stable' if decline in revenue and profitability or large working capital requirement weakens financial risk profile, particularly liquidity.

About the Company

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SCL reported a profit after tax (PAT) of Rs.11.93 million on an operating income of Rs.1.699 billion for 2014-15, against a PAT of Rs.15.33 million on an operating income of Rs.1.588 billion for 2013-14.

For the nine months ended December 31, 2015, PAT was Rs.10.38 million on an operating income of Rs.1.423 billion.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Million)	Rating	Facility	Amount (Rs.Million)	Rating
Bank Guarantee	230	CRISIL A4+(Notice of Withdrawal)	Bank Guarantee	230	CRISIL A4+
Cash Credit	550	CRISIL BB+/Positive(Notice of Withdrawal)	Cash Credit	550	CRISIL BB+/Stable
Corporate Loan	200	CRISIL BB+/Positive	Corporate Loan	200	CRISIL BB+/Stable
Foreign Exchange Forward	8	CRISIL A4+(Notice of Withdrawal)	Foreign Exchange Forward	8	CRISIL A4+
Letter of Credit	320	CRISIL A4+(Notice of Withdrawal)	Letter of Credit	320	CRISIL A4+
Long Term Loan	59.5	CRISIL BB+/Positive	Long Term Loan	59.5	CRISIL BB+/Stable
Total	1367.5	--	Total	1367.5	--

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