MAGNA

MAGNA ELECTRO CASTINGS LIMITED

43, BALASUNDARAM ROAD, COIMBATORE - TN 641 018. INDIA
TEL : (0422) 2240109, 2246184, 2240487, FAX : (0422) 2246209
E-MAIL : info@magnacast.com
Web : www.magnacast.com
CIN : L31103TZ1990PLC002836

SEC/BSE/ 49 /2018-19

December 04, 2018

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400 001

Kind Attn: Mr. Shyam Bhagirath
Mr. Rakesh Parekh

Scrip Code: **517449**

Dear Sirs,

Assignment of Credit Rating

We would like to inform you that CARE Ratings Limited has assigned Credit Rating for various bank facilities of Magna Electro Castings Limited on request.

The extract of rating letter issued by CARE Ratings Limited is enclosed for your reference and records.

Kindly acknowledge the receipt.

Thanking you,

For **Magna Electro Castings Limited**

Sangeetha C
Company Secretary

CARE Ratings
Professional Risk Opinion

CARE/CMBO/RL/2018-19/1056

Mr. N Krishna Samaraj
Managing Director
Magna Electro Castings Limited
43, Balasundaram road,
Coimbatore - 641018

December 04, 2018

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and H1FY19 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term bank facilities	10.00 (reduced from 10.84)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short term bank facilities	16.25 (enhanced from 16.00)	CARE A2 (A Two)	Reaffirmed
Total facilities	**26.25 (Rupees Twenty Six Crore and Twenty Five Lakhs only)**		

2. Refer **Annexure I** for details of rated facilities.

3. The rationale for the rating is provided in **Annexure-II**. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-III**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 6, 2018, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

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T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399

CIN-L67190MH1993PLC071691

enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Achuth Sekhar
Analyst
achuth.sekhar@careratings.com

Swathi Subramanian
Manager
swathi.subramanian@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure I
Details of Rated Facilities

1. Long-term facilities

1.A. Fund Based Facilities

(Rs.Crore)

Sr. No.	Name of Bank	Fund Based Limits	
		CC*	Total fund-based limits
1.	Corporation Bank	5.00	5.00
2.	Indian Bank	5.00	5.00
	TOTAL	**10.00**	**10.00**

**CC=Cash credit;*

Total long-term facilities Rs. 10.00 crore

2. Short-term facilities

2.A. Fund based Facilities

(Rs.Crore)

Sr. No.	Name of Bank	Fund Based Limits	
		FBP/FBD*	Total
1.	Corporation Bank	10.00	10.00
	Total	**10.00**	**10.00**

**FBP/FBD = Foreign bills purchase/discounting*

2.B. Non fund based limits

(Rs.Crore)

Sr. No.	Name of Bank	Non Fund Based Limits		Amount
		LC*	BG*	
1.	Corporation Bank	5.00	1.25	6.25
	TOTAL	**5.00**	**1.25**	**6.25**

**LC=Letter of credit; BG=Bank guarantee*

Total short-term facilities Rs 16.25 crore

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

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Annexure II
Rating Rationale
Magna Electro Castings Private Limited

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings**[1]	**Rating Action**
Long term bank facilities	10.00 (reduced from 10.84)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short term bank facilities	16.25 (enhanced from 16.00)	**CARE A2 (A Two)**	**Reaffirmed**
Total facilities	**26.25 (Rupees Twenty Six Crore and Twenty Five Lakhs only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to Magna Electro Castings Limited (MECL) continue to derive strength from the vast experience of the promoters, long operational track record of more than two decades in casting business, well-established manufacturing facilities and financial risk profile marked by comfortable capital structure and debt coverage indicators.
The ratings are, however, constrained by modest scale of operations with relatively lower capacity utilization, moderate profit margins with volatility in raw material prices, exposure to foreign exchange risk and intensely competitive & fragmented nature of industry.
Going forward, ability of MECL to increase its scale of operations by effectively utilizing its capacities and improve its profit margins would remain key rating sensitivities.

Detailed description of the key rating drivers

Vast experience of the promoter

MECL was promoted in 1990 by Mr. N Krishna Samaraj an Engineer and Management graduate by qualification. He has more than two decades of business experience in the casting industry. He is the Ex-president of "The Institute of Indian Foundry men" and currently takes care of the overall management of the company. He is assisted by a well-qualified and experienced team of professionals to take care of the day-to-day operations of the company.

Long and successful operational track record of over two decades catering to both domestic and export markets

MECL has a long track record of presence for over 2 decades in the industry. With its longstanding presence, it has successfully established its brand image in the market. MECL caters to different industrial requirements including auto, valves, transmission, locomotives etc. and each of these contribute around 10-12% of its total income.
The company has a long standing presence in ductile iron casting segment. The company caters to both domestic and export market with export sales contributing to about 50% of the revenue in FY18 (PY: 51%).

Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration. The company's manufacturing facility is located at Coimbatore Pollachi main road, Tamil Nadu, which is spread over 10 acres of land having in-house facilities such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. MECL has three furnaces with aggregate capacity of 3 tons/hour. Presence of captive power source for the unit is an added advantage. MECL has started concentrating on machining of castings compared to sale of raw castings. A part of the machining is done from its sister concern 'Samrajyaa and Company' located near MECL's unit to the extent of Rs.6.87 crore in FY18 (PY: Rs.6.87 crore). Latest CNC machines with high precision are in place to meet the quality and needs of the customers.

MECL uses indigenously developed dies and tools in the casting process which helps them maintain better quality and consistency. MECL's design and engineering capability and the ability to manufacture castings with consistent quality and reliability is well acknowledged by its Tier I customers, who have been giving repeat orders.

Increased scale of operations, however decline in profitability in FY18

The casting industry has many large players with higher capacities and large scale of integrated operations and the scale of operations of MECL, remains modest. MECL reported a total income of Rs. 93.46 crore during FY18. The Income increased by 17.84% growth compared to FY17 on account of increased sales volume. During the H1FY19, the company has achieved total revenues of Rs. 59.55 crore. MECL operates at moderate capacity utilization levels for the past four years and stood at 67% during FY18.

The Company's PBILDT margin declined to 13.51% in FY18 compared to 18.42% in FY17 on account of increased raw material prices. The Power cost went up from Rs.10.27 crore in FY17 to Rs.11.10 crore in FY18 where third party purchase accounted for 11.80% of the total power cost. However PBILDT margins improved to 15.36% in H1FY19 on the back of reduced outsourcing cost and specialised orders from Mahindra & Mahindra and Caterpillar which carried higher margins.

Financial risk profile marked by comfortable liquidity position

The overall gearing of the company improved to 0.06x as on March 31, 2018 compared to 0.09x as on March 31, 2017. The Company's term debt exposure has reduced as of FY18 majorly on account of repayments and closure of term loans. The coverage indicators also improved with Interest Coverage ratio improving from 26.94 in FY17 to 40.55 in FY18 and TD/GCA improving marginally from 0.40 years as on March 31, 2017 to 0.32 years as on March 31, 2018.The fund based utilisation stood low at 8% for the past 12 months.

Profit margins exposed to volatility in raw material prices

The primary raw materials used for the ductile iron casting include steel scrap and ferro alloys, whose prices are inherently volatile and driven largely by global as well as local demand and supply conditions. Steel scrap contributes to 84% of the total raw material requirement and rest is contributed by Ferro alloys and other raw materials like pig iron,

SS

graphite granules. Hence any volatility in the prices of these materials may impact the profitability of MECL.
The company's profit margins are also exposed to pricing pressures due to MECL's major presence in the transmission, energy, auto and locomotives segment. These segments consist of price sensitive customers and low entry barriers resulting intense competition even from the unorganized sector. To mitigate this risk, the company has already diversified into value added product offerings like machined products. Further, with about 50% of the income from export markets, the company's realisations are also exposed to risk on foreign exchange rates.

Highly competitive nature of industry
The demand for castings industry is driven primarily by growth in infrastructure, industrial growth and the need for energy efficient solutions. India is a strong base for manufacturing of casting-related products with presence of more castings units. India's low cost manufacturing and local demand has made it a profitable proposition. The presence of international players in the market has led to a significant up gradation in technology leading to better solutions for end users. The automobile & pumps segment accounts for major market for castings which are cyclical in nature. Low entry barriers and a price sensitive end user have led to unorganized sector capturing some share in the market.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Auto Ancillary Companies

About the company
MECL is a public limited company incorporated in the year 1990 by Mr. N Krishna Samaraj who has more than two decades of business experience. MECL is engaged in business of manufacturing & supplying ductile and grey iron castings in the weight range of 300 grams to maximum of 2000 kilograms. As on March 31, 2018, the unit had an installed capacity of 10800 MT. MECL also produces fully machined components utilizing its in-house CNC machine shop and other facilities as well. MECL caters to various end user industries like auto, locomotives, valve, windmills, transmission etc. The company has wind mills with aggregate capacity of 4MW for captive consumption purposes.

Financial Performance

For the period ended / as at Mar.31,	*2016 (12m, A)*	*2017 (12m, A)*	*2018 (12m, A)*
			(Rs. Cr)
Working Results			
Total Operating income	94.32	79.31	93.46
PBILDT	15.05	14.61	12.63
Interest	1.34	0.54	0.31
Depreciation	4.63	5.21	4.54
PBT	9.10	8.90	7.77
PAT (after deferred tax)	6.65	7.31	6.76
Gross Cash Accruals	11.63	12.10	10.73
Financial Position			
Equity Capital	4.58	4.58	4.58
Networth	46.46	54.95	60.61
Total capital employed	61.73	63.59	67.21
Key Ratios			
Growth (%)			
Growth in Total income	-7.44	-15.92	17.84
Growth in PAT (after D.Tax)	22.46	9.89	-7.53
Profitability (%)			
PBILDT/Total Op. income	15.96	18.42	13.51
PAT (after deferred tax)/ Total income	7.05	9.21	7.23
ROCE	16.29	15.57	12.21
RONW	15.22	14.80	11.52
Solvency (times)			
Long Term Debt Equity ratio	0.10	0.03	0.00
Overall gearing ratio	0.21	0.09	0.06
PBILDT /Interest	11.20	26.94	40.55
PBIT / Interest	7.75	17.33	25.97
Term debt/Gross cash accruals(years)	0.40	0.12	0.00
Total debt/Gross cash accruals(years)	0.84	0.40	0.32
Liquidity (times)			
Current ratio	1.45	2.03	1.29
Quick ratio	1.17	1.69	1.84
Turnover (days)			
Average collection period	82	87	96
Average creditors	59	62	51
Average inventory	30	34	32
Operating cycle	53	59	77

**A:Audited;*

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable.

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Swathi Subramanian
Tel: 0422-4502399
Mobile: 9444234834
Email: swathi.subramanian@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Fund-based - ST-FBN / FBP	-	-	-	10.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	6.25	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Oct-17)	1)CARE BBB+; Stable (06-Jan-17)	1)CARE BBB+ (14-Jan-16) 2)CARE BBB+ (14-May-15) 3)CARE BBB+ (21-Apr-15)
2.	Fund-based - ST-FBN / FBP	ST	10.00	CARE A2	-	1)CARE A2 (23-Oct-17)	1)CARE A2 (06-Jan-17)	1)CARE A2 (14-Jan-16) 2)CARE A2 (14-May-15) 3)CARE A2 (21-Apr-15)
3.	Fund-based - LT-Term Loan	-	-	-	-	1)CARE BBB+; Stable (23-Oct-17)	1)CARE BBB+; Stable (06-Jan-17)	1)CARE BBB+ (14-Jan-16) 2)CARE BBB+ (14-May-15)
4.	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	-	1)CARE A2 (23-Oct-17)	1)CARE A2 (06-Jan-17)	1)CARE A2 (14-Jan-16) 2)CARE A2 (14-May-15)

Annexure-3:Details of Rated Facilities

1. Long-term facilities

1.A. Fund Based Facilities

(Rs.Crore)

Sr. No.	Name of Bank	Fund Based Limits	
		CC*	Total fund-based limits
1.	Corporation Bank	5.00	5.00
2.	Indian Bank	5.00	5.00
	TOTAL	**10.00**	**10.00**

**CC=Cash credit;*

Total long-term facilities Rs. 10.00 crore

2. Short-term facilities

2.A. Fund based Facilities

(Rs.Crore)

Sr. No.	Name of Bank	Fund Based Limits	
		FBP/FBD*	**Total**
1.	Corporation Bank	10.00	10.00
	Total	**10.00**	**10.00**

**FBP/FBD = Foreign bills purchase/discounting*

2.B. Non fund based limits

(Rs.Crore)

Sr. No.	Name of Bank	Non Fund Based Limits		Amount
		LC*	**BG***	
1.	Corporation Bank	5.00	1.25	6.25
	TOTAL	**5.00**	**1.25**	**6.25**

*LC=Letter of credit; BG=Bank guarantee

Total short-term facilities Rs 16.25 crore

Annexure III
Press Release
Magna Electro Castings Limited

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings**[1]	**Rating Action**
Long term bank facilities	10.00 (reduced from 10.84)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short term bank facilities	16.25 (enhanced from 16.25)	**CARE A2 (A Two)**	**Reaffirmed**
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The ratings are, however, constrained by modest scale of operations with relatively lower capacity utilization, moderate profit margins with volatility in raw material prices, exposure to foreign exchange risk and intensely competitive & fragmented nature of industry.

Going forward, ability of MECL to increase its scale of operations by effectively utilizing its capacities and improve its profit margins would remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter

MECL was promoted in 1990 by Mr. N Krishna Samaraj an Engineer and Management graduate by qualification. He has more than two decades of business experience in the casting industry. He currently takes care of the overall management of the company.

Long and successful operational track record of over two decades catering to both domestic and export markets

MECL has a long track record of presence for over two decades in the ductile iron casting segment. The company caters to both domestic and export market with export sales contributing to about 50% of the revenue in FY18 (PY: 51%).

MECL caters to different industrial requirements including auto, valves, transmission, locomotives etc. and each of these contribute around 10-12% of its total income.

Well-established manufacturing facilities with in-house machining capabilities

MECL has well-established manufacturing facilities supported by its backward integration. The company's manufacturing facility, spread over 10 acres of land has in-house facilities such as metal handling, moulding, melting, sand plant, heat treatment, finishing, core shop, testing facilities and packing. Presence of captive power source for the unit is an added advantage. MECL has started concentrating on machining of castings compared to sale of raw castings. Some part of the machining is also done from its sister concern 'Samrajyaa and Company' located near MECL's unit.

Financial risk profile marked by comfortable liquidity position

The overall gearing of the company improved to 0.06x as on March 31, 2018 compared to 0.09x as on March 31, 2017. The coverage indicators also improved with Interest Coverage ratio improving from 26.94 in FY17 to 40.55 in FY18 and TD/GCA improving from 0.40 years as on March 31, 2017 to 0.32 years as on March 31, 2018. The fund based utilisation stood low at 8% for the past 12 months.

Key Rating weakness

Moderate scale of operations, however decline in profitability in FY18

MECL reported a total income of Rs. 93.46 crore during FY18. The Income increased by 17.84% growth compared to FY17 on account of increased in sales volume. During the H1FY19, the company has achieved total revenues of Rs. 59.55 crore. MECL operates at moderate capacity utilization levels for the past four years and stood at 67% during FY18.

The Company's PBILDT margin declined to 13.51% in FY18 compared to 18.42% in FY17 on account of increased raw material prices. The Power cost went up from Rs.10.27 crore in FY17 to Rs.11.10 crore in FY18 where third party purchase accounted for 11.80% of the total power cost. However PBILDT margins improved to 15.36% in H1FY19 on the back of reduced outsourcing cost and specialised orders from Mahindra & Mahindra and Caterpillar which carried higher margins.

Profit margins exposed to volatility in raw material prices

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Highly competitive nature of industry

The demand for castings industry is driven primarily by growth in infrastructure, industrial growth and the need for energy efficient solutions. India is a strong base for manufacturing of casting-related products with presence of more castings units. India's low cost manufacturing and local demand has made it a profitable proposition. The presence of international players in the market has led to a significant up gradation in technology leading to better solutions for end users. The automobile & pumps segment accounts for major market for castings which are cyclical in nature. Low entry barriers and a price sensitive end user have led to unorganized sector capturing some share in the market.

Analytical approach: Standalone