India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Electrosteel Castings's Bank Facilities to 'IND AA'/Stable; Affirms CPs at IND A1+; Rates Additional Limits

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Electrosteel Castings Limited's (ECL) facilities:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/ Watch	Rating Action
Commercial paper^	-	-	Up to 365 days	INR1,000	IND A1+	Affirmed
Long-term loan	-	-	FY30	INR6,404 (reduced from INR8,979)	IND AA/Stable	Upgraded
Fund-based working capital limits	-	-	-	INR13,500	IND AA/Stable/IND A1+	Long-term rating upgraded; Short-term affirmed
Fund-based working capital limits	-	-	-	INR3,500	IND AA/Stable/IND A1+	Assigned
Non-fund-based working capital limits	-	-	-	INR19,000	IND A1+	Affirmed

(*) Carved out of the existing fund-based working capital banking lines

Analytical Approach

Ind-Ra continues to assess ECL's standalone profile to arrive at the ratings.

Detailed Rationale of the Rating Action

The upgrade reflects better-than-Ind-Ra-estimated operational performance of ECL in FY24 and a reduction in its net leverage, on the back of higher EBITDA per tonne, which is likely to moderate but remain higher than Ind-Ra's earlier estimates given the favorable demand supply scenario, supported by a ramp-up in volumes after its capacity expansion. The company has utilised its incremental cash generation for the prepayment of its long-term loans. Ind-Ra expects ECL's net leverage to sustain below 1.5x over FY25-FY26, supported by strong cash flow generation despite its ongoing debt-funded capex. Furthermore, strong demand for ductile iron (DI) pipes in the domestic market driven by government thrust has led to expanding order book and is likely to support sustained high realisations over the medium term.

List of Key Rating Drivers

Strengths

- Improvement in credit metrices likely to sustain
- Resilient EBITDA/t despite likely moderation
- Robust business profile; among leading industry players

- Healthy order book

Weaknesses

- Debt-funded capex
- Working capital-intensive operations
- Pending recovery of mining compensation

Detailed Description of Key Rating Drivers

Improvement in Credit Metrices likely to Sustain: Ind-Ra expects the net leverage ((total debt-free cash)/EBITDA; debt including letter of credit (LC) acceptances) to sustain below 1.5x over FY25-FY26, given the reduction in net debt coupled with an improvement in the absolute EBITDA despite its ongoing debt-funded capex. ECL's net leverage reduced to 1.39x in FY24 (FY23: 2.97x; FY22: 3.36x). The improvement was owing to an increase in the absolute EBITDA to INR11,524 million in FY24 (FY23: INR7,138 million). The net debt reduced to INR15,896 million in FY24 (FY23: INR20,084 million) given its scheduled repayments and pre-payment (of INR2,280 million) of long-term loans. The leverage reduced further to 1.21x in 1QFY25 on an annualised basis. The gross interest coverage (EBITDA/gross interest expenses) improved to 5.71x in FY24 (FY23: 2.62x; FY22: 3.43x). It further increased to 9.11x in 1QFY25, owing to lower interest cost with reduced debt and the higher absolute EBITDA.

Resilient EBITDA/t despite likely Moderation: Ind-Ra expects the blended EBITDA per tonne to remain at INR9,000-INR11,000 over FY25-FY26, higher than Ind-Ra's earlier estimates, though some moderation is likely from the current levels as the spreads normalise. The EBITDA per tonne increased sharply to INR15,078 in 1QFY25 (FY24: INR13,639; FY23: INR8,422; FY22: INR8,060), driven by sustained high realisations of DI pipes. The increased realisation of the DI pipes was due to strong domestic demand amid a correction in raw material costs, leading to higher spreads and higher economies of scale on improved capacity utilisation. The improvement is EBITDA per tonne has been consistently supported by improved sales volumes for high-margin DI pipes. In 1QFY25, ECL reported EBITDA margin of 18.25% (FY24: 16.61%; FY23: 10.32%; FY22: 12.68%). The company's margins remained range bound at 11%-15% during FY14-FY22.

However, ECL's fixed-price nature of contracts makes the margins vulnerable to raw material prices. Ind-Ra believes that the company will benefit from a fall in raw material prices, but it would be affected in the event of a rise in costs. Nevertheless, ECL has been able to manage the risk of raw material price inflation through entering back-to-back contracts for five-to-six months of the order book while keeping nearly a quarter of the order book open.

Robust Business Profile; Among Leading Industry Players: ECL has five manufacturing locations in the east and south regions with a pan-India customer base. The total DI pipe capacity at 745,000 metric tonnes per annum (mtpa) commands around 19% of the total market share in terms of operational installed capacity at end-March 2024 (FYE23: around 21%). ECL is currently among the largest players in the DI pipe segment in India and benefits from relatively higher economies of scale along with cost efficiency due to operational synergies. While ECL does not have captive raw material sources for iron ore and coal, the captive power plants (40.25 megawatt) cater to 40%-45% of the overall power requirement. Overall, its DI pipe capacities remained 100% utilised in FY24 (FY23: 99%; FY22: 84%). The entity's revenue remained stable at INR69,380 million in FY24 (FY23: INR69,160 million), with a 2% yoy increase in its sales realisation and 5% yoy rise in sales volumes for DI pipes.

ECL plans to increase its volumes in the high-margin export markets, as its plants in the eastern part of India are located near the ports and ECL has all the required approvals in place. It would simultaneously continue to cater to the domestic market, supported by the capacity expansion of its south Indian plant to 650,000mtpa by 4QFY26 (FYE24: 400,000 mtpa).

Healthy Order Book: ECL's order book remained healthy around 0.675mt (7% of export orders) at end-July 2024, with the revenue visibility for over six months. The orders are largely in fixed price and have an exposure to the water departments of the respective states and engineering procurement and construction players. Furthermore, DI pipes remain under the higher focus areas of the state and central governments and thus are part of the critical infrastructure spending. The central government's Nal se Jal scheme under the Jal Jeevan Mission provides further visibility on the order book and top line for DI pipe players over FY25-FY26.

Debt-funded Capex: ECL is undertaking capex to expand its DI pipe manufacturing capacities over FY23-FY26 by around 38% to 995,000mtpa by 4QFY26, and also plans to upgrade the allied infrastructure to maintain the integrated nature of operations. The capex plan is around INR7,000 million (to be funded by debt and internal accruals). At end-July 2024, the company had unavailed term loan of INR1,510 million, which can be used to fund the capex. Furthermore, the company may set up a greenfield unit in Odisha over the medium term which is at very nascent stages of discussion and hence Ind-Ra has not considered the same for current assessment purposes. Nevertheless, the overall impact of the total project cost and funding pattern on ECL's credit metrices shall be closely monitored as and when further details are available regarding the capex.

Working Capital-intensive Operations: ECL's operations continue to be working capital-intensive in nature. The working capital cycle increased to 150 days in FY24 (FY23: 131 days; FY22: 161 days), due to an increase in inventory days to 110 days (100 days; 153 days) due to higher stock of coking coal maintained by the company at year end as the prices had tapered from higher levels during the year. The receivable days also increased to 82 days in FY24 (FY23: 69 days; FY22: 76 days), led by higher billing towards the year-end. ECL undertakes discounting of debtors to ease the working capital cycle and cushion the liquidity. The company procures raw material through a mix of LC and spot buying. While coking coal is largely purchased through the LC mechanism; the method for procuring iron ore depends on the prevailing demand-supply situation.

Pending Recovery of Mining Compensation: Ind-Ra does not expect ECL to receive any compensation in the short term in the cancelled coal blocks case due to an unexpected delay in legal proceedings. This is despite the Delhi High Court's order saying that the government agency is responsible for compensation to expedite the final settlement. However, with the successful refinancing over FY20-FY22 and post-amalgamation, the company's liquidity position has improved even without factoring in the receipt of any portion of this compensation. Ind-Ra will continue to monitor the progress with respect to the compensation claim for mining deallocation of about INR12 billion; if this amount is received, ECL's liquidity will improve considerably.

Liquidity

Adequate: ECL's average utilisation of the fund-based and non-fund-based limits was at around 65% and 90%, respectively, for the 12 months ended July 2024. The unutilised fund-based working capital limits remained around INR10.5 billion at end-July 2024. ECL has a consortium limit of INR13.0 billion and outside consortium limit of INR4.0 billion; however, its overall utilisation would remain within INR13.0 billion. At end-June 2024, the free cash balance stood at INR2,870 million (FY24: INR4,514 million; FY23: INR4,631 million), reduced primarily owing to the company incurring capex and funding of working capital. The cash flow from operations remained positive at INR5,488 million in FY24 (FY23: INR2,313 million; FY22: negative INR4,362 million) primarily supported by the increased absolute EBITDA. Furthermore, ECL has been steadily refinancing its high-interest cost term debt with a low-cost mix of long-term debt and short-term debt, thereby easing the repayments in a staggered manner, reducing interest obligations and thus improving the overall liquidity profile. The debt service coverage ratio is likely to remain over 1.75x during FY25-FY26 for scheduled principal repayments of INR1,181 million and INR2,086 million, respectively. Its liquidity is further supported by the realisation of inter corporate deposits (ICDs) extended by ECL in 1QFY24 (FYE24: nil; FYE23: INR1,094 million; FYE22: INR531 million) and the company is unlikely to extend ICDs in future, as per the management.

Rating Sensitivities

Positive: An improved backward integration, an increasing market share with the timely completion and a ramp up of the ongoing capacity expansion, the maintenance of the healthy EBITDA per tonne along with healthy credit metrices, all on a sustained basis, would lead to a positive rating action.

Negative: Any major debt-funded capex/acquisition and/or any unrelated diversion of funds leading to net leverage (including LC acceptances) increasing above 1.5x or a stress on liquidity on a sustained basis would result in a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ECL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Incorporated in 1955, ECL is a leading player in the domestic DI pipe industry with operations spread over five manufacturing units located in West Bengal (Khardah, Haldia, Bansberia), Andhra Pradesh (Srikalahasthi) and Tamil Nadu (Elavur). Its product portfolio comprises of pig iron (850,000 mtpa), DI pipes (745,000 mtpa), cast iron pipes (90,000 mtpa) and DI fittings (21,000 mtpa). The operations are also backed by around 45% captive power generation (waste-heat-based). The company also operates manufacturing facilities for coke, ferro alloys, sinter and cement enabling higher cost efficiencies.

Key Financials Indicators

Particulars	1QFY25	FY24	FY23
Net revenue (INR million)	18,320	69,380	69,160
Operating EBITDA (INR million)	3,343	11,524	7,138
Operating EBITDA margin (%)	18.25	16.61	10.32
Operating EBITDA interest coverage (x)	9.11	5.71	2.62
Net adjusted leverage (x; including LC acceptances)	1.21*	1.39	2.97
Source: Company, Ind-Ra (*) on an annualised basis			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating/Outlook	21 September 2023	29 November 2022	25 February 2022	5 October 2021	13 May 2021
Issuer rating	-	-	-	WD	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A/Rating Watch with Positive Implications
Long-term loan	Long-term	INR6,404	IND AA/Stable	IND AA-/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable	IND A/ Rating Watch with Positive Implications
Fund-based working capital limits	Long-term/Short-term	INR17,000	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A/ Rating Watch with Positive Implications /IND A1/ Rating Watch with Positive Implications
Non-fund-based working capital limits	Short-term	INR19,000	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1/ Rating Watch with Positive Implications
Commercial paper	Short-term	INR1,000	IND A1+	IND A1+	IND A1+	IND A1+	-	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Long-term loan	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Commercial paper	Low

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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