ICRA

July 14, 2017

PG Electroplast Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	32.00	Upgraded to [ICRA]BB+ (Stable) from [ICRA] BB (Stable)
Non-fund-based Limits	18.00	Upgraded to [ICRA]BB+ (Stable) from [ICRA] BB (Stable)
Total	**50.00**	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB+ (Stable) (pronounced as ICRA double B plus)[1] from [ICRA] BB (Stable) (pronounced as ICRA double B) on the Rs. 50.00-crore fund-based limits and non-fund-based limits limits of PG Electroplast Ltd (PGEL). The outlook on the long-term rating is 'Stable'.

Rationale

The rating upgrade takes into consideration the healthy growth in the company's sales volumes in FY2017 driven by addition of new products and customers coupled with growing business from its existing customers. The rating continues to factor in the company's established relationships with consumer durable and auto component principals and the company's moderate working capital cycle. ICRA has taken note of the company's proceedings with SEBI[2] and positively factors in the release of funds from escrow which were eventually deployed in the company's working capital requirements.

The rating however is constrained by PGEL's dependence on business plans and performance of its key customers and limited control over operations given that majority of the business parameters are customer driven as is characteristic of this business. Notwithstanding the healthy growth in current year, PGEL profitability margins were modest also impacted by provisions for doubtful debts. Further, while ICRA also notes that to increase diversification across industry segments and customers, PGEL will continue undertaking debt funded capex. However, pending the ramp up of profits coupled with weak performance over the last few years, PGEL's return indicators have remained weak and debt coverage metrics have moderated.

PGEL's debt repayments are expected to step up from FY2018 onwards. Going forward, PGEL's ability to generate adequate returns and improve its debt coverage indicators will be the key rating sensitivities. PGEL's efforts to maintain lean cost structure after GST[3] and adapt with the rapid technology upgradation in the consumer electronics space will continue to be key rating monitrables.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] SEBI= Securities and Exchange Board of India

[3] GST= Goods and Service Tax

Key rating drivers

Credit strengths

- Established player in the EMS space with relationships with various consumer durables majors.
- Ramp up of volumes in new division and addition of new customers like LAVA International Ltd (Lava), Vego Home Science Pvt Ltd (Vego), Voltas Ltd. (Voltas)
- Comfortable working capital intensity, with funding option available in terms of bill discounting

Credit weaknesses

- Weak return indicators owing to losses in past and deployment of funds in unyielding investments, further suppressed owing to significant ongoing capex
- High capex requirement going forward, returns of which will be realized gradually.
- Dependence on business plans of principals, growing diversification provides comfort

Description of key rating drivers:

PGEL is an established player in the Indian consumer durables space and has maintained good relationships with its principals. Over the years, PGEL has been expanding its product and client portfolio. In FY2017, PGEL started mould designing for air coolers and manufacturing of mobile phones for new principals. This along with steady business from existing customers, PGEL registered highest growth in sales in FY2017 in the past five years. However, PGEL's profits remained stagnant owing to provisions made for sums extended to group entities in the past. The company has done substantial capex in the last three years amounting to Rs 44 crore which is majorly funded from external borrowings of Rs 32 crore. Pending ramp up of profits has kept PGEL's return indicators at modest levels (RoCE of 6.3% and RoNW of 3.1% respectively in FY2017), though slightly improved from the previous year. Similarly, debt coverage indicators have also been impacted to some extent. Further ICRA has positively factors in the SAT[4] rulings of release of funds from escrow which were eventually deployed in the company's working capital requirements and relaxation in debarment period from the securities market imposed on PGEL and its promoters from ten years to seven years which is valid till FY2018.

PGEL's working capital intensity remained moderate and is duly supported by the funding options available in terms of bill discounting. Apart from the working capital limits of Rs 15 crore, the company has additional Rs 43 crore of bill discounting limits against specific clients.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
https://www.icra.in/Rating/ShowMethodologyReport/?id=464&Title=Corporate%20Credit%20Rating%20Methodology&Report=Corporate%20Credit%20Rating,%20Methodology,%20Mar%202017.pdf

About the company:
PGEL, incorporated in 2003 by Mr Pramod Gupta, is engaged in the manufacture of consumer durables which comprise mainly of Molding division: which includes parts of AC, Washing Machine, Refrigerator for LG & CMI, Automobile parts for SMR (Maruti), Tata, Mahindra, Minda, Bathroom fittings for Kohler, Jacquar etc. Tooling Division: Moulds for automobile parties, air coolers for Voltas and Vego. In complete product range the company manufactures kitchen appliances like Juicer, Mixer, flask, chopper, microwave kits, plastic container, solar lamp, water purifier, set top boxes and air coolers. The company

[4] SAT= Securities Appellate Tribunal

started manufacturing mobile phone for LAVA in FY2017 in the Pune unit under “Make in India” scheme.
PGEL has 5 manufacturing facilities; 3 in Noida (Uttar Pradesh), 1 in Pune (Maharashtra) and 1 in Rorkee (Uttarakhand).

PGEPL reported a net profit of Rs 3.72 crore on an operating income (OI) of Rs. 367.01 crore in FY2017, as compared to a net profit of Rs 2.08 crore on an OI of Rs. 260.25 crore in the previous year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S.No	Instrument	Current Rating FY2018			Chronology of Rating History for the past 3 years
		Type	Amount Rated (Rs. Crores)	Date & Rating	Date & Rating in FY2016
				July, 2017	**June, 2016**
1	Cash Credit	Long Term	15.00	[ICRA] BB+ (Stable)	[ICRA] BB (Stable)
2	Working Capital Term Loan		17.00		
3	Bank Guarantee		2.30		
4	Letter of Credit		15.70		

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of issuance/ Sanction	Coupon rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Cash Credit	-	-	-	15.00	[ICRA] BB+ (Stable)
Working Capital Term Loan	2014	-	2019	17.00	
Bank Guarantee	-	-	-	2.30	
Letter of Credit	-	-	-	15.70	

Source: PGEL

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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