October 05, 2021

Pyrotech Electronics Private Limited: Rating reaffirmed, outlook continues to be negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	51.00	51.00	[ICRA]BBB- (Negative) reaffirmed
Long-term Fund-based – Term Loan	9.00	9.00	[ICRA]BBB- (Negative) reaffirmed
Long-term Non-fund Based – Bank Guarantee	36.00	36.00	[ICRA]BBB- (Negative) reaffirmed
Long-term Non-fund Based – Letter of Credit	7.00	7.00	[ICRA]BBB- (Negative) reaffirmed
Long-term - Unallocated	17.00	17.00	[ICRA]BBB- (Negative) reaffirmed
Total	**120.00**	**120.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating along with negative outlook continues to factor in the stretch in working capital cycle for Pyrotech Electronics Private Limited's (PEPL), driven largely by the elongated receivable cycle primarily for its panel division as well as high inventory level on an overall basis for the company. The net working capital/ operating income (NWC/OI), hence, remained high at 49.7% in FY2021, up from 48.2% in FY2020. Despite turn around in operations in FY2021 compared to FY2020, driven by higher sales and better cost management, the debt coverage metrics continues to remain at average levels due to moderate profitability and relatively higher working capital borrowing requirements. The rating also continues to be constrained by vulnerability of margins to commodity prices (mainly steel) and exposure to time and cost overruns in the projects business.

The rating, however, favourably factors in the extensive experience of PEPL's promoters, which has enabled repeat orders from established customers supporting the order book. The current order book stood at ~Rs. 165 crore for panel and LED division as on August 31, 2021, which provides near term revenue visibility. The rating also positively factors in the promoters have a track record of infusing unsecured loans, as and when required by the company, to support the liquidity and declining repayment burden from FY2022 onwards.

The Negative outlook on the [ICRA]BBB- rating reflects ICRA's opinion that PEPL's liquidity will remain stretched in the near term, driven by its elongated receivable cycle, necessitating working capital borrowing, thus putting pressure on debt metrics.

Key rating drivers and their description

Credit strengths

Well experienced and professional management – The company's promoters have vast experience in the electricals and electronics industry. They have built strong relationships with clients, such as Bharat Heavy Electricals Limited (BHEL), which enables PEPL to receive repeat orders from its customers. Further, there is a track record of infusion of unsecured loans from Group companies or by the promoters to support the liquidity profile.

Growing revenue diversity with reduced customer concentration risk – In the last few years, the company has increased its focus on new sectors like power transmission, glass, chemicals, etc, in panels and has been operating as a contract manufacturer for LED majors. Further, it has added new products in its portfolio like high-density motor control center (MCC) panels, e-kiosks, smart bus shelters and control panels for petrol pumps. The company has also added new clients in different sectors, which has led to a healthy build-up of the order book. Further, over the years, PEPL has served as a qualified vendor for control panels for various clients and has established its track record with repeat orders for engineering majors like BHEL, Siemens, Alstom, etc. However, the shift to the other sectors for panel orders and traction in LED business has increased revenue diversity, thereby reducing dependence on a few clients and sectors. ICRA, however, expects the panel division to continue to dominate PEPL's revenue stream.

Current order book position provides revenue visibility – In the current year, PEPL has received large orders from various clients in the panels division for its new product line developed in the last three years. Along with the LED driver division, this accounts for an order book of Rs. 165 crore as on August 31, 2021, which provides revenue visibility in the near term.

Credit challenges

Subdued performance in FY2020 and FY2021– Owing to a slowdown in the company's order book during FY2020 and the breakout of the Covid-19 pandemic in Q4 FY2020, PEPL's top line deteriorated by 34% in FY2020. The decrease in scale also contributed to deterioration in the company's profitability. Its operating profit margin decreased to 3.3% in FY2020 from 9.7% in FY2019 and it incurred losses on the net level. The revenue in FY2021 was further impacted by the disruption led by the pandemic in H1 FY2021. The company reported marginal increase in revenues by 3% in FY2021 on a YoY basis. Despite low revenues, the company reported improved operating margins of 9.5% in FY2021 owing to various cost control measures undertaken in FY2021.

Elongated working capital cycle due to high receivable cycle – The working capital intensity has been historically high amid elongated receivable cycle, as is prevalent in the sector. Traditionally, the working capital cycle remains long as the manufacturing process in turnkey projects requires multiple approvals from clients and the payment is linked to the installation and defect liability period. Hence, the receivable days stood high at 157 days as of FY2021. The inventory days also remained at a higher side on account of high inventory maintained for control panels, LED drivers and high inventory of finished goods for LED division as it is volume driven. The inventory stood at 132 days as of FY2021. Hence the NWC/OI marginally swelled at 49.7% in FY2021 compared to 48.2% in FY2020 (39.3% in FY2019). While the payment cycle in the LED division has been satisfactory, the company's ability to manage its liquidity position will be closely monitored.

Moderate capital structure and weak debt coverage indicators – PEPL had undertaken debt-funded capital expenditure in the past. Further, the company has high working capital requirements owing to its elongated working capital cycle. As a result, the capital structure remained relatively leveraged with gearing of 1.4 times as on March 31, 2021 over 1.5 times as on March 31, 2020. Despite the turnaround in operations in FY2021, the debt coverage indicators remained at average levels, as reflected by DSCR of 1.2 times, interest coverage of 2.2 times and debt/EBDITA of 4.5 times in FY2021.

Liquidity position: Stretched

PEPL's liquidity is stretched, given the high utilisation of its working capital facilities and low cash and liquid investments as on March 31, 2021. However, with declining repayments in FY2022, the net cash accruals are expected to be sufficient to service the debt obligation. Managing its working capital cycle and liquidity profile, going forward, will be a key rating monitorable.

Rating sensitivities

Positive factors – Given the negative outlook, any near-term rating upgrade is unlikely. However, the outlook can be revised to Stable if sustained growth in its earning and sustained improvement in its working capital cycle to support its liquidity position is demonstrated.

Negative factors – ICRA could downgrade PEPL's ratings if the company's scale and profitability decline significantly on a sustained basis. In addition, further deterioration in its working capital cycle impacting liquidity could result in a ratings downgrade. TOL/TNW increasing to over 3.0 times could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

PEPL is a part of the Pyrotech Group promoted by Mr. CP Talesara, Mr. PS Talesara, Mr. VP Rathi and Mr. NK Pande. The company manufactures control panels, electronic instruments, temperature sensors and industrial modular furniture. Its three main business segments are control and instrumentation panels, electronic instrument panels and LED drivers. PEPL has three manufacturing units in Udaipur, Rajasthan. The company also has franchisee arrangements and tie-ups with international companies dealing with related product categories.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	163.6	168.5
PAT (Rs. crore)	-7.7	3.3
OPBDIT/OI (%)	3.3%	9.5%
PAT/OI (%)	-4.7%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.4
Total Debt/OPBDIT (times)	13.8	4.6
Interest Coverage (times)	0.6	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 17, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					October 5, 2021	March 10, 2021	April 2, 2020	-	January 23, 2019
1	Cash Credit	Long-term	51.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
2	Term Loan	Long-term	9.00	7.82	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
3	Bank Guarantee	Long-term	36.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
4	Letter of Credit	Long-term	7.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
5	Unallocated	Long-term	17.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loan	Simple
Long-term Non-fund Based – Bank Guarantee	Very Simple
Long-term Non-fund Based – Letter of Credit	Very Simple
Long-term - Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	51.00	[ICRA]BBB- (Negative)
NA	Term Loan	2020	NA	2026	9.00	[ICRA]BBB- (Negative)
NA	Bank Guarantee	NA	NA	NA	36.00	[ICRA]BBB- (Negative)
NA	Letter of Credit	NA	NA	NA	7.00	[ICRA]BBB- (Negative)
NA	Unallocated	NA	NA	NA	17.00	[ICRA]BBB- (Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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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