

June 28, 2022

Pyrotech Workspace Solutions Private Limited: Rating upgraded to [ICRA]BBB- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Overdraft	12.00	12.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long-term – Non-fund Based	22.50	22.50	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long-term – Unallocated	0.50	0.50	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Total	35.00	35.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the rating of Pyrotech Workspace Solutions Pvt. Ltd. (PWSPL) takes into account the increase in its scale of operations, marked by its revenue increasing to Rs. 94.2 crore in FY2022 (provisional) from Rs. 65.9 crore in FY2021, which along with healthy profitability and low leverage results in healthy debt coverage indicators. Over the last few fiscals, the company has shifted its focus from turnkey projects in the office space (involving design, manufacturing and installation of office furniture) to the relatively lucrative turnkey projects in the control room segment (includes design, manufacturing and installation of control room consoles of various industries), which has supported margin expansion. Moreover, it has added new clients to its order book, particularly export orders, which has led to growth in its profitability. The rating draws comfort from the company's low leverage and adequate liquidity position, supported by low working capital limit utilisation and limited long-term debt. The rating also factors in PWSPL being part of the Pyrotech Group and the operational synergy between the Group companies, which has enabled it to build a client base.

The rating remains constrained by PWSPL's modest scale of operations and high working capital intensity (48.1% in FY2022) owing to high inventory days and receivable cycle. While ICRA notes that the company's receivable cycle has reduced in the recent fiscal, its working capital intensity remains high as a result of high inventory holding. The rating continues to factor in the vulnerability of its profit margins to adverse movement in raw material prices and foreign exchange rates, given the increase in the share of exports in the company's total sales. ICRA notes that PWSPL had extended sizeable advances to its Group companies in the past. Any material financial support or investments in financially stressed entities, which could have a bearing on the company's liquidity will be a credit negative.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that PWSPL will benefit from the extensive experience of its promoters and established relations with customers.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The vast experience of PWSPL's promoters in the furniture business, along with the company's established relations with its major customers enabled it to receive repeat orders over the years.

Robust profitability – In the backdrop of increasing share of exports revenue as well as focus on the relatively profitable control room segment, the company's operating margin has been healthy (28.5% in FY2022). While its operating margins are susceptible to commodity cost pressure, the overall margins are expected to remain over 20% over the medium term.

Low leverage and comfortable debt coverage indicators – PWSPL had negligible external debt as on December 31, 2021. Its working capital utilisation in the 12-month period ending in December 2021 was 7.2% of its sanctioned limits with nil utilisation in multiple instances. Further, healthy accruals in the recent fiscals led to comfortable debt coverage indicators with DSCR and interest coverage of 35.5 times and 51.3 times, respectively, as on March 31, 2021.

Credit challenges

Modest scale of operations – The company’s scale of operations remained modest despite being in the business since 2007. High dependency on select clients and volatile order inflows from turnkey projects impacted its turnover and profitability. In the recent past, it has added new clients including overseas customers, which along with its focus on the niche but profitable control room segment has helped in scaling up operations.

High working capital intensity – PWSPL’s operations involves significant inventory as it takes two-six months of time to complete an order depending upon the size of the contract and readiness of site. Due to the nature of its business, the inventory days remained relatively higher and stood at ~127 days in FY2022. While ICRA notes that the company’s receivables have reduced in the recent fiscals, its working capital intensity remains high as a result of the considerable increase in the inventory holding period. PWSPL’s capital intensity increased to ~48.1% and 57.2% in FY2022 and FY2021, respectively, from 42.4% in FY2020.

Margins exposed to raw material and forex rate fluctuation risks – PWSPL’s revenues from exports has increased significantly in FY2021 and FY2022, which makes it vulnerable to volatility in demand in the key export markets. Further, its profitability remains dependent on its ability to effectively hedge export receivables on a consistent basis.

High Inter-corporate deposits – As of December 2021, the company reported a total of Rs. 32.48 crore of loans and advances extended to Group companies. Of these, Rs. 28.09 crore includes unsecured inter-corporate loans with an interest rate of 7.5%, which are repayable on demand. However, timely realisation of these deposits, if required, in future will be subject to availability of funds with the Group companies and therefore remains a concern.

Liquidity position: Adequate

PWSPL’s liquidity is expected to remain adequate, supported by healthy annual cash flow from operations and low working capital utilisation levels of less than 15%. The company had unencumbered cash balance of Rs. 17.1 crore as on December 31, 2021, which is likely to be adequate in comparison to its obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates significant increase in scale, on a sustained basis, while maintaining the current profitability metrics leading to healthy cash accruals and liquidity position.

Negative factors – ICRA could downgrade PWSPL’s rating if a significant deterioration in its scale of operations, or elongation of its working capital cycle due to stretched receivables worsens its liquidity position and credit metrics. Further, considerable advances/cash outflow to Group companies, which weakens its liquidity position, could also lead to a rating downgrade.

Analytical approach

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

About the company

Incorporated in 2007, PWSPL manufactures office furniture as well as guest house interiors and undertakes turnkey projects for control rooms. Since FY2017, however, the company has started focusing solely on manufacturing and stopped taking turnkey projects. It has commissioned more than 70 control room projects in various sectors such as power, steel, oil and gas, and cement, etc. PWSPL holds various quality certificates, which ensure that its product and services confirm to international standards. It operates its manufacturing facility from an owned factory built on an area of 14,400 sq. metres in Udaipur, Rajasthan. The company is a part of the Udaipur-based Pyrotech Group, which has interests in manufacturing control panels, electronic equipment, temperature sensors and industrial cables.

Key financial indicators (audited)

PWSPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	61.9	65.9
PAT (Rs. crore)	14.6	25.3
OPBDIT/OI (%)	29.7%	48.3%
PAT/OI (%)	23.5%	38.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	0.0	0.1
Interest Coverage (times)	39.3	51.3

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 (FY2023)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 28, 2022	April 29, 2021	April 9, 2020	
1	Fund-based Overdraft	Long-term	12.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	
2	Non-fund Based	Long-term	22.50	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	
3	Unallocated	Long-term	0.50	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-Based – Overdraft Facilities	Simple
Long-term Non-fund Based Facilities	Very Simple
Long-term – Unallocated	NA

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	NA	NA	NA	12.00	[ICRA]BBB- (Stable)
NA	Non-fund Based	NA	NA	NA	22.50	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	0.50	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Abhishek Gupta

+91 124 4545 863

abhishek.gupta@icraindia.com

Vaibhav Jain

+91 124 4545 868

vaibhav.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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