August 25, 2023

Premium Transmission Private Limited: Ratings upgraded to [ICRA]AA-(Stable)/[ICRA]A1+ from [ICRA]A+(Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Term Loan	24.50	24.50	[ICRA]AA- (Stable) upgraded from [ICRA]A+ (Stable)
Long Term / Short Term-Fund Based-Cash Credit	90.00	90.00	[ICRA]AA- (Stable)/ [ICRA]A1+ upgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Long Term / Short Term-Interchangeable-Others	(40.00)	(40.00)	[ICRA]AA- (Stable)/ [ICRA]A1+ upgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Long Term / Short Term-Non Fund Based-Others	27.90	27.90	[ICRA]AA- (Stable)/ [ICRA]A1+ upgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Long Term / Short Term-Unallocated	5.00	5.00	[ICRA]AA- (Stable)/ [ICRA]A1+ upgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Total	**147.40**	**147.40**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers Premium Transmission Private Limited's (PTPL) improvement in the financial performance during the last two financial years, which is expected to sustain in the current year as well. During FY2022-2023, PTPL's consolidated revenues have increased by 24-25% p.a., which are expected to rise to ~Rs. 700 crore in FY2024. The order book has improved to Rs. 250 crore as on June 30, 2023, which along with the expected order inflow guidance provides revenue visibility in the near term. The operating margin has also improved to 24.0% in FY2023 from 17.8% in FY2022, owing to an improvement in the operating leverage, focus on cost efficiencies as well as prudent product mix towards high-margin products. An improvement in operating profits and cash accruals supported healthy debt coverage metrics and a comfortable liquidity position with cushion in working capital limits. In FY2024, PTPL's performance is expected to remain healthy with strong order execution and an operating margin of 22-23%. The ratings continue to consider PTPL's established position in the domestic industrial gearbox industry, its wide dealership network in India, and a diversified customer portfolio across various end-user industries. The ratings also consider the favourable medium-term demand outlook with increased demand from the end-users such as the steel, cement, sugar and food & beverages sectors. The ratings also factor in the company's strong parentage and financial flexibility for being a part of the Karan Thapar Group.

The ratings are constrained by the high working capital intensity with NWC/OI at 22.6% as on March 31, 2023, though the same improved from the earlier years. This was primarily on account of high receivables and inventory levels required in the gear division, which is in line with the industry requirements. The ratings are further constrained as the revenues are exposed to the cyclicality in the domestic capex cycle and to any economic slowdown. However, the company's presence across various industries as well as in the replacement market and its steady exports provide comfort. The ratings further note the vulnerability of the company's profitability to the volatility in the prices of raw materials, which primarily include steel and steel components.

While reaffirming the ratings, ICRA also considers the liquidation of the loss-making operations of PTPL's overseas subsidiary, Premium Stephan BV (PSBV), impacting its consolidated performance for more than the last three fiscals. The company has repaid all liabilities and written off losses in FY2022-23 and no further losses are expected, going forward. In FY2022, another subsidiary named Premium Motion Private Limited (PMPL) commenced operations to manufacture actuators for solar panels. With the expected addition of new clients, PMPL's revenues and profits are likely to improve in the near term, supporting the operational profile and the consolidated scale of operations. ICRA notes that the company has large capex plans worth ~Rs. 150 crore over the next 18-24 months to increase the installed capacity of the facilities. Given the healthy cash flows, the company is likely to fund a substantial portion of the capex through internal accruals, thus limiting reliance on external debt. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable.

The Stable outlook on the long-term rating reflects ICRA's opinion that PTPL's revenues and accruals will be supported by its healthy order book along with healthy operating margins, supporting the debt coverage indicators.

Key rating drivers and their description

Credit strengths

Improvement in scale and profitability in FY2023; likely to sustain in FY2024 – In FY2022-2023, PTPL's consolidated revenues have increased by 24-25% p.a., which are expected to rise to ~Rs. 700 crore in FY2024. The operating margin also improved to 24.0% in FY2023 from 17.8% in FY2022, owing to an improvement in the operating leverage, focus on cost efficiencies as well as prudent product mix towards high-margin products. In Q1 FY2024, the standalone revenue is estimated to be around Rs. 158 crore with an operating margin of ~23.1%. Going forward, PTPL's performance is expected to remain healthy with strong order execution and an operating margin of 22-23%.

Healthy capital structure and debt protection metrics – PTPL's capital structure remains comfortable, as reflected by nil gearing and total outside liability relative to the tangible net worth of 0.6 times as on March 31, 2023 (PY: 0.9 times). Healthy profits and conservative capital structure led to strong debt coverage metrics, with an interest coverage of 81.6 times and net cash accruals relative to total debt of 1328% in FY2023. PTPL's debt coverage metrics are likely to remain comfortable, going forward.

Strong parentage as a Karan Thapar Group entity; leading player in domestic industrial gears market – PTPL is a part of the Karan Thapar Group, which has an established track record of managing diverse businesses such as Greaves Cotton Limited and EICL Limited (rated [ICRA] BBB+ (Negative)/ [ICRA] A2). The same provides access to management and business support as well as financial flexibility. PTPL has an extensive presence in the industrial gears segment and caters to a reputed clientele. The company manufactures standard products (~25% of total sales) as per pre-defined specifications as well as customised products (~75% of total sales), serving various industry segments. The company's dealer network is well diversified, with over 120 dealers spread across different geographies.

Favourable medium-term outlook; healthy order book provides revenue visibility – PTPL reported a consolidated turnover of Rs. 633.2 crore in FY2023, a growth of ~24%, backed by strong order inflows. The order book position of the company improved with outstanding orders of Rs. ~250 crore as on June 30, 2022 (~40% of FY2023 revenues) compared to Rs. 200 crore as on March 31, 2022, providing better revenue visibility.

Credit challenges

Revenues exposed to cyclicality in end-user industries – PTPL's revenues are exposed to the cyclicality in the economic environment and hence, industrial capacity addition. Its performance is particularly dependent on capex plans of key industries like power, steel, cement, sugar etc. With a considerable revenue share from the primary market, any economic slowdown could adversely impact its revenues. However, presence across multiple segments mitigates the risk to an extent. Additionally, steel is the major raw material, so the margins are susceptible to fluctuation in raw material prices. Nonetheless, PTPL's ability to pass on wide variation in raw material prices to its customers and increasing prices in case of new orders provide comfort to an extent.

High working capital intensity – The company's working capital intensity is high at 22.6% as on March 31, 2023, though it improved from 23.4% as on March 31, 2022. This was primarily on account of high receivables and inventory levels required in the transmission division, in line with the industry requirements. However, the company also has a stringent policy to take advances from selected customers to better support its working capital requirements and minimise order cancellations.

Large capital expenditure underway, exposing the company to project execution risk – PTPL is undertaking large capex plans of ~Rs. 150 crore over the next 18-24 months for enhancing the installed capacities at its various facilities, thus, exposing the company to project execution risks. However, the company is likely to fund a substantial portion of the capex through internal accruals, thus limiting reliance on external debt. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable.

Liquidity position: Adequate

The company's liquidity profile is expected to remain comfortable, given the cash and bank balance of Rs. 15.4 crore as on March 31, 2023 and adequate cushion available in the form of undrawn lines of credit in its working capital facilities. The monthly working capital utilisation remained minimal at 1-7% of the sanctioned working capital limits in FY2023 and Q1 FY2024. ICRA also notes the capital expenditure plans of ~Rs. 150 crore in the next two years, to be funded by internal accruals. However, adequate cash flows and no debt repayment obligations strengthen its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if PTPL demonstrates a significant growth in its scale of operations and liquidity position, while sustaining the healthy profit margins and debt coverage metrics.

Negative factors – Pressure on the ratings could arise if there is sustained pressure on the company's earnings, large capex or a stretch in the working capital requirements, leading to a deterioration in the financial risk profile of the company. Specific credit metric that could lead to ratings downgrade will be Net Debt/OPBITDA of more than 1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of PTPL and its subsidiaries - Premium Stephan B.V. and Premium Motion Private Limited

About the company

Premium Transmission Private Limited (PTPL), earlier a part of Greaves Cotton Limited, was spun off into a separate company in 2004. The company, a part of the Karan Thapar Group, is a leading industrial gears manufacturer in India. PTPL has four manufacturing facilities in India. In FY2022, PTPL established a new subsidiary named Premium Motion Private Limited, which manufactures and exports actuators that find application in solar panels. In January 2023, PTPL has decided to liquidate the German subsidiary, Premium Stephan B.V.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	512.2	633.2
PAT	42.1	82.7
OPBDIT/OI	17.8%	24.0%
PAT/OI	8.2%	13.1%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	0.6	0.0
Interest coverage (times)	24.0	81.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2024) Amount rated (Rs. crore)	Amount outstanding as on Jun 30, 2023 (Rs. crore)	Date & rating in FY2024 Aug 25, 2023	Chronology of rating history for the past 3 years Date & rating in FY2023 Jul 29, 2022	Date & rating in FY2022 Aug 02, 2021	Date & rating in FY2021 Aug 03, 2020
1	**Fund based - Term Loan**	Long-term	24.50	0.0	**[ICRA]AA- (Stable)**	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)
2	**Fund based – Cash credit**	Long-term/ Short-term	90.00	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1
3	**Non-fund based – Others**	Long-term/ Short-term	27.90	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1
4	**Interchangeable -Others**	Long-term/ Short-term	(40.00)	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1
5	**Unallocated**	Long-term/ Short-term	5.00	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term Loan	Simple
Long term/Short term – Fund based – Cash credit	Simple
Long term/Short term – Non-fund based – Others	Very Simple
Long term/Short term – Interchangeable – Others	Very Simple
Long term/Short 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: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based – Term Loan	July 2019	NA	April 2023	24.50	[ICRA]AA- (Stable)
NA	Long term/Short term – Fund based – Cash credit	NA	NA	NA	90.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long term/Short term – Non-fund based – Others	NA	NA	NA	27.90	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long term/Short term – Interchangeable-Others	NA	NA	NA	(40.00)	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long term/Short term – Unallocated	NA	NA	NA	5.00	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Premium Stephan B.V.	100%	Full Consolidation
Premium Motion Private Limited	100%	Full Consolidation

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About ICRA Limited:

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