February 29, 2024

Prabha Industries: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Overdraft	4.00	4.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Short-term Non-fund based	20.00	20.00	[ICRA]A2; upgraded from [ICRA]A3+
Long-term Term Loans	9.05	25.34	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)/ assigned for enhanced limits
Long-term/ Short-term Unallocated	3.95	7.66	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)/ assigned for enhanced limits; [ICRA]A2; upgraded from [ICRA]A3+ and assigned for enhanced limits
Total	**37.00**	**57.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Prabha Automotive Engineers Private Limited (PAEPL), Prabha Auto Products Private Limited (PAPPL) and Prabha Industries (PI) (collectively referred to as Prabha Group/the Group), given their common promoters/management and significant operational and financial linkages. The Group is in the process of amalgamating the three entities in the next 6-12 months, to simplify the structure, unlock synergies and create a platform for overall growth. Apart from this, the upgrade in the ratings for PI also considers the Group's conservative debt metrics and adequate liquidity, and ICRA's expectation of a sustained financial performance in the near to medium term, supported by its healthy business profile and vast experience of the promoter. The ratings also draw comfort from the Prabha Group being one of the oldest suppliers to Ashok Leyland Limited (ALL, rated [ICRA]AA (Stable)/[ICRA]A1+) and its healthy share of business with the original equipment manufacturer (OEM) for front-end structure (FES), cabins, load bodies, tipper bodies, bus cowls and fuel and oil tanks. The Group has healthy scale of operations with revenues of Rs. 1,365.2 crore in FY2023 and Rs. 635.4 crore in H1 FY2024, and has set up its manufacturing plants in proximity to ALL's plants, and its well-equipped in-house capabilities, thus providing competitive advantage. Apart from ALL, the Group also caters to other established OEMs in the CV and PV space, and has been able to add new customers/businesses periodically.

The ratings, however, remain constrained by Group's high customer-concentration with 60-70% (in FY2023) of its revenues being derived from a single customer, ALL. While the Group is also gradually diversifying its sales to other customers, the extent of reduction in concentration over the medium term remains to be seen. Akin to other players with sizeable CV exposure, Prabha Group's earnings are also vulnerable inherent cyclicality in the domestic CV industry. Further, it has moderate margins owing to its limited value addition.

Key rating drivers and their description

Credit strengths

Established relationship with OEMs – Prabha Group is one of the oldest suppliers to ALL and has a healthy share of business with the OEM for FES, cabins, load bodies, tipper bodies, bus cowls and fuel and oil tanks. Further, Prabha Group has set up its manufacturing plants close to ALL's plants for logistical ease and uninterrupted supply. Out of the five locations where ALL has its facilities across India, Prabha Group has its units in four locations spread across Hosur, Alwar, Chennai and Pantnagar. Its well-equipped in-house capabilities and proximity to ALL's plants provide competitive advantage. Apart from ALL, it also caters to established OEMs in the CV and PV space, and has been able to add new customers/businesses periodically.

Healthy scale of operations and comfortable debt metrics – The Group has healthy scale of operations and reported revenues of Rs. 1,365.2 crore in FY2023 and Rs. 635.4 crore in H1 FY2024. Further, the Group's capital structure and coverage metrics remain comfortable, aided by healthy accruals amid moderate capex and low working capital intensity. The Group's gearing (total debt/total net worth) stood at 1.2 times as on March 31, 2023 and 1.0 time as on September 30, 2023, while its Total Debt/OPBDITA stood at 1.9 times as on March 31, 2023 and September 30, 2023 as well. The debt metrics are expected to remain comfortable going forward as well, despite incremental debt for capex plans in FY2024 and FY2025 and consequent likely moderation in coverage metrics.

Credit challenges

Moderate margins – The Group has had moderate margins historically owing to its limited value addition. The Group reported operating profit margin of 6.3% in FY2023, and 7.1% in H1 FY2024. ICRA expects the Group's margins to remain range-bound over the medium term, although there could be some improvement from the periodic cost-optimisation measures adopted, higher operating leverage as scale improves and synergies from the proposed amalgamation once completed.

High customer concentration – The Group derived 60-70% of its FY2023 revenues from supplies to ALL. Thus, its performance is dependent on ALL's performance and loss of business to competition, if any. However, the company's established relationship with ALL for over four decades and repeat businesses, provide comfort. The Group is also gradually diversifying its sales to other customers. However, the extent of reduction in concentration over the medium term remains to be seen.

Vulnerability of revenues and earnings to inherent cyclicality in the CV industry – CV sales, which constituted over 85% of Prabha Group's revenues in FY2023, remains inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. Other factors like regulatory changes (emission norms, scrappage policy, etc.) and stiff competition leading to aggressive discounting practices, also impact volumes of industry players. While CV demand was healthy in FY2023, it was sluggish in few earlier years, affected by revision in axle load norms, slowing economic growth, tightened financing environment, and pandemic-induced lockdowns and interstate restrictions. However, the company is gradually increasing its revenue proportion from non-CV segments.

Liquidity position: Adequate

Prabha Group's liquidity position remains adequate, supported by healthy anticipated cash accruals, buffer of Rs. 53.8 crore in working capital lines and free cash and bank balances of Rs. 14.3 crore as on September 30, 2023. Prabha Group's average working capital utilisation was 75% of sanctioned limits for the last 12 months. The Group is also plans to sell its land parcel in Poonamalle (Chennai), for a consideration of ~Rs. 40 crore in FY2025 (advance of Rs. 8 crore received in FY2024, while the balance amount is likely to be received in FY2025). Against these sources of cash, Prabha group has expected debt repayments of Rs. 3.2 crore in H2 FY2024, Rs. 8.1 crore in FY2025 and Rs. 13.1 crore in FY2026 on existing and sanctioned facilities. Further, Prabha group has a capex of Rs. 30.0 crore per annum over the medium term, to be partly funded by debt. Overall, ICRA expects Prabha Group to be able to meet its medium-term commitments through internal sources of cash and yet be left with adequate buffer in working capital lines and cash/liquid investments surplus.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a sustained improvement in scale of operations and debt protection metrics. Specific credit metrics that could lead to an upgrade include Total debt/OPBITDA below 2.3 times on a sustained basis.

Negative factors – Negative pressure on the Group's ratings could emerge from weakening of business linkages with ALL, sharp deterioration in the earnings or significant rise in net debt on sustained basis, either due to capex or working capital stretch.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Prabha Automotive Engineers Private Limited (PAEPL), Prabha Auto Products Private Limited (PAPPL) and Prabha Industries (PI) (collectively referred to as Group), given their common management and significant operational and financial linkages.

About the partnership firm

Prabha Industries manufactures dies and sheet-metal stamped auto components for PVs, CVs and 2Ws. Its factories are located at Bangalore, Kanchipuram and Pune. It is a partnership firm with 80% stake held by S. Kubher and 20% stake held by K. Vinod Kubher. Mr. S. Kubher is a mechanical engineer and has significant experience in the auto-ancillary space for more than five decades. Mr. Vinod Kubher is also a Mechanical Engineer with Master's in manufacturing from Wayne State University, Detroit, having industrial experience in General Motors and Daimler Chrysler, USA, for over ten years.

PAPPL is a part of the Prabha Group, which has two other entities – Prabha Auto Products Private Limited, involved in cabin, tipper, load bodies and other structural parts for ALL and manufacturing of stamped parts for other OEMs and Prabha Industries, a partnership firm involved in manufacturing of dies and stamped parts for auto OEMs and ancillaries. The Group is also looking to amalgamate the three entities in the next 6-12 months, to simplify the structure, unlock synergies and create a platform for growth. Prabha Group is promoted by Mr. Kubher and his son, Mr. Vinod Kubher, and is closely held by the promoters and their family.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	825.8	1365.2
PAT	17.1	36.6
OPBDIT/OI	6.8%	6.3%
PAT/OI	2.1%	2.7%
Total outside liabilities/Tangible net worth (times)	4.4	2.7
Total debt/OPBDIT (times)	2.9	1.9
Interest coverage (times)	3.5	4.7

Source: Company, ICRA Research; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances. The consolidated numbers presented in the above table are based on ICRA's estimates.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Feb 29, 2024	Dec 29, 2022	Sep 03, 2021	Feb 04, 2021
1	Overdraft	Long term	4.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Bank Guarantee	Short term	20.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Term Loan	Long term	25.34	5.34	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-
4	Unallocated	Long-term/Short term	7.66	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Overdraft	Simple
Short-term Non-fund based	Very Simple
Long-term Term Loan	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	**Overdraft**	NA	8.70%	-	4.00	[ICRA]BBB+ (Stable)
NA	**Bank Guarantee**	NA	NA	-	20.00	[ICRA]A2
NA	**Term Loan**	FY2022	8.70%	FY2027	25.34	[ICRA]BBB+ (Stable)
NA	**Unallocated**	NA	NA	-	7.66	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Name	Ownership	Consolidation Approach
Prabha Automotive Engineers Private Limited	NA	Consolidated
Prabha Auto Products Private Limited	NA	Consolidated
Prabha Industries	NA	Consolidated

Note: ICRA has taken a consolidated view of the above mentioned companies while assigning the ratings

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About ICRA Limited:

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