

August 02, 2024

Pricol Engineering Industries Private Limited: Ratings reaffirmed and assigned for enhanced limit

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	9.00	21.00	[ICRA]BBB (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Term loan	0.84	7.00	[ICRA]BBB (Stable); Reaffirmed and assigned for enhanced amount
Short-term – Non-fund based – Others	10.00	7.00	[ICRA]A3+; Reaffirmed
Long-term/ Short-term – Unallocated	0.16	9.00	[[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed and assigned for enhanced amount
Total	20.00	44.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the extensive experience of Pricol Engineering Industries Private Limited's (PEIPL) promoters in the auto sector and the company's established track record, which has supported addition of new customers and products lines and maintaining a diversified business profile with reputed clientele. Consequently, its operating income increased to Rs. 147.4 crore in FY2024 (YoY growth of 17%), supported by a pick-up in domestic demand in the auto sector and addition of new division in its product portfolio segment. ICRA expects PEIPL's growth momentum to continue in FY2025, led by the healthy order book of ~Rs. 166.5 crore as on May 01, 2024, driven by an increase in orders for alternators and switches. In FY2024, the operating margin moderated to around 8%. PEIPL is expected to maintain range-bound margins in the foreseeable future. The company's debt protection metrics and liquidity moderated in FY2024. However, the same is likely to recover in FY2025 and in the future years, aided by stable cash accruals and reducing debt.

Notwithstanding the above, the ratings remain constrained by PEIPL's small scale of operations and low net worth, exposing it to increased vulnerability during periods of sustained downturn. Further, its profitability remains volatile and vulnerable to raw material prices and competition in the business, which would impact its cash accruals and debt coverage metrics. The company's tender-based orders in the defence and railway sectors also lead to low revenue visibility and thin profit margin. While PEIPL's customer diversification has improved from the previous levels, it remains moderately high with the top five customers contributing 55% to the revenue in FY2024. Therefore, it remains exposed to concentration risks.

ICRA notes that the company made an investment of around Rs. 41.0 crore in FY2024 towards an acquisition of 1.42% stake in Pricol Limited (flagship company of the promoter Group), which was funded partially by internal accruals and partly by availing additional working capital facilities. Consequently, the investment affected the company's liquidity and debt protection metrics in FY2024. Nevertheless, the stable business operations with steady cash accruals supported it in absorbing the impact. Going forward, with improving business, stable cash accruals and reducing debt, the company's debt protection metrics is likely to improve. However, any further large incremental investment or capex funded by fresh debt would adversely impact its credit profile and would be a key monitorable.

The Stable outlook on long term rating of PEIPL's reflect ICRA's opinion that the company is likely to sustain its operating metrics though with some volatility in its profitability. Further, the outlook underlines ICRA's expectations that the company's working capital and short-term fund requirements would be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating level, along with adequate liquidity.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record – PEIPL has been manufacturing products for defence and railways since its inception in 1995. Given the long experience of the promoters in the industry and its established operational track record, PEIPL has been able to develop a wide network of suppliers and customers. The company benefits from the established brand name, Pricol, which has a strong brand image with customer in the auto component segment. It has well-established and healthy relationships with clients, which help it in securing repeat orders.

Diversified operations with presence across auto components, railways and defence sectors – PEIPL has presence in the defence, railways and auto component industries. It manufactures various products such as hull electrical equipment, driver panels and instrumental clusters, cable harnesses, alternators and oil pressure switches to name a few, under the umbrella brand, Pricol. PEIPL's revenues, which were earlier concentrated in the defence and railways segments, leading to limited revenue visibility owing to the tender-based nature of the contracts, have diversified across the defence/railways (accounting for ~24% of revenues in FY2024) and the auto component (accounting for ~68% of revenues in FY2024) sectors. The company has also added wiring harness and gauges as separate product segments due to growth potential and increased demand for the same.

Satisfactory debt protection metrics – PEIPL's debt coverage metrics remains satisfactory with TD/OPBDITA of 2.6 times, DSCR of 2.2 times and interest coverage of 2.9 times in FY2024. However, the same moderated from FY2023 level owing to additional working capital facility availed to fund an investment in its Group company, value of which has increased significantly. A part of additional working capital facility undertaken in FY24 has already been repaid and portion from balance is expected to be availed as long term loan. Consequently, with steady revenue growth, stable profitability and reducing debt levels, the company's debt protection metrics is likely to recover, going forward.

Credit challenges

Small scale of operations and low net worth base exposing it to increased vulnerability in periods of sustained downturn – PEIPL, with an operating income of ~Rs. 147.4 crore in FY2024 (prov) and ~Rs. 125.9 crore in FY2023, has a small scale of operations, though the same is growing steadily. Further, its net worth remains low at Rs. 43.6 crore as on March 31, 2024. The small scale and low net worth exposes it to intense competition from a number of established and small manufacturers, which restricts its pricing flexibility to an extent. Moreover, the company's modest scale of operations and low net worth makes it vulnerable to a prolonged period of industry downturn.

Volatile and thin margins, highly vulnerable to movement in raw material prices – PEIPL's operating margins remains modest and range-bound within 8%-10% owing to B2B nature of business. The margins remain volatile based on fluctuations in raw material prices. Further, stiff competition and fragmented structure of the business restricts the company's pricing flexibility.

Prone to customer concentration risk though reputed clientele limits counterparty risks – The company's client profile comprises auto original equipment manufacturers (OEMs) like Tata Motors Limited, Tractors and Farm Equipment Limited (TAFE), Mahindra & Mahindra Limited and Daimler India Commercial Vehicles Private Limited, among others. It also supplies its products to the Indian Railways and defence entities. Although PEIPL's client diversification has improved over the recent years, the share of its top five customers remains high at 55% in FY2024, which indicates moderately high customer concentration risk. However, established relationships with reputed customers and history of repeat orders mitigate this risk to an extent. Additionally, PEIPL is focusing on adding new customers in the auto segment in FY2025, which will further diversify its customer base.

Liquidity position: Adequate

PEIPL's liquidity is adequate with steady cash accruals of more than Rs. 10.0 crore likely in FY2025 and the future years. The company's free cash and liquid investments of less than Rs. 1.00 crore as on March 31, 2024 was significantly lower than the

past years. Also, its fund based working capital limits witnessed high utilisation (86% average) with limited buffer during the 12-month period ending March 2024. The moderation in free balances and high utilisation was account on an investment made in the Group company, for which it availed additional working capital facility. ICRA notes that a part of the loan has been repaid and portion from balance is likely to be availed as Long term loan, which would provide comfort to its liquidity, going forward.

Rating sensitivities

Positive factors – An upgrade in the ratings could be triggered, in case of a significant increase in the scale of operations, along with an improvement in the net worth and liquidity, while maintaining satisfactory debt protection metrics on a sustained basis.

Negative factors – The ratings could be downgraded due to a deterioration in liquidity and debt protection metrics arising from a significant moderation in revenues and margins and/or a large debt-funded capex or investments. Specific credit metrics for a rating downgrade would be DSCR below 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financial statements of the issuer.

About the company

Pricol Engineering Industries Private Limited (PEIPL; erstwhile Pricol Engineering Industries Limited) manufactures driver control panels, hull electrical equipment for tanks and armoured vehicles, alternators, oil-pressure switches and caters to the defence, railways, and auto component sectors. The latter business was acquired by the company from PMP Auto Components Private Limited in FY2018. It has two manufacturing facilities located at Coimbatore, Tamil Nadu and Rudrapur, Uttarakhand. The company is a part of the well-known Coimbatore-based Pricol Group, with its presence spanning over a decade. PEIPL is held by Pricol Holdings Limited, which is primarily held by Mr. Vikram Mohan, who heads the Pricol Group.

Key financial indicators (audited)

Standalone	FY2023	FY2024*
Operating income	125.9	147.4
PAT	7.9	4.2
OPBDIT/OI	10%	8%
PAT/OI	6%	3%
Total outside liabilities/Tangible net worth (times)	1.2	1.6
Total debt/OPBDIT (times)	0.8	2.6
Interest coverage (times)	11.5	2.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Aug 02, 2024	May 11, 2023	-	Mar 28, 2022	Jul 29, 2021
1	Fund-based – Cash credit	Long Term	21.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
2	Fund-based – Term loan	Long Term	7.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	[ICRA]BB+ (Positive)
3	Non-fund based – Bank guarantee	Short Term	7.00	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3	[ICRA]A4+
4	Unallocated	Long Term/ Short Term	9.00	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+	-	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BB+ (Positive)/ [ICRA]A4+
5	Interchangeable limits	Long Term	-	-	-	-	-	[ICRA]BB+ (Positive)
6	Demand loan	Long Term	-	-	-	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Bank guarantee	Very Simple
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	Cash credit	NA	NA	NA	21.00	[ICRA]BBB(Stable)
NA	Term loan	FY2024	9.50%	FY2027	7.00	[ICRA]BBB(Stable)
NA	Bank guarantee	NA	NA	NA	7.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	9.00	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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Branches



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