September 03, 2024

Premium Transmission Private Limited: Ratings reaffirmed; outlook revised to Positive

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	-	-
Long Term / Short Term-Fund Based	90.00	124.50	[ICRA]AA-(Positive)/[ICRA]A1+; reaffirmed; Outlook revised to Positive from Stable
Long Term / Short Term Interchangeable-Others	(40.00)	(22.90)	[ICRA]AA-(Positive)/[ICRA]A1+; reaffirmed; Outlook revised to Positive from Stable
Long Term / Short Term-Non Fund Based-Others	27.90	22.90	[ICRA]AA-(Positive)/[ICRA]A1+; reaffirmed; Outlook revised to Positive from Stable
Long Term / Short Term-Unallocated	5.00	-	
Total	**147.40**	**147.40**	

**Instrument details are provided in Annexure-I*

Rationale

The revision of the outlook on Premium Transmission Private Limited's (PTPL) long-term rating to Positive reflects ICRA's expectation of sustained improvement in financial performance in FY2025, following better-than-expected performance in FY2024. Supported by sustained domestic demand from its end-user industries and growth in the emerging solar actuator segment through its subsidiary, Premium Motion Private Limited (PMPL), PTPL's consolidated revenues are expected to significantly improve further in the current fiscal, following ~11% YoY revenue growth in FY2024.

The company's order book remained steady at ~Rs. 320 crore (including PMPL orders) as of July 2024, which, along with the expected order inflow guidance, provides revenue visibility in the near term. This, coupled with expected steady operating margins of ~22-23%, driven by high-margin customised products and increased export sales, is expected to support the debt coverage metrics and liquidity position.

ICRA expects PTPL's revenue growth and sustained earnings in the medium term to be bolstered by its established position in the domestic industrial gearbox industry, extensive dealership network in India and diversified customer portfolio across various end-user industries. The ratings also consider the favourable medium-term demand outlook with increased demand from end-users in the steel, cement, sugar and power sectors. Additionally, the company's strong parentage and financial flexibility as part of the Karan Thapar Group are key factors supporting the ratings.

While revising the outlook, ICRA also notes the company's planned capex of ~Rs. 500 crore for capacity expansion in the medium term, targeting both the industrial gearbox segment and solar actuator business. Given the expectation of healthy operating cash flows, the company is likely to fund a substantial portion of the capex through internal accruals, thus limiting its long-term debt requirements. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable. Following the expansion, the company will benefit from increased scale and other operational synergies, further strengthening its overall operating profile.

The ratings are constrained by the high working capital intensity, with NWC/OI at 27% as on March 31, 2024. This is primarily due to high receivables and inventory levels required in the gear division, which aligns with industry requirements. Further, the ratings are impacted by the company's exposure to the cyclicality in the domestic capex cycle and potential economic slowdowns. However, the company's presence across various industries, as well as in the replacement market, along with its steady export performance, provides comfort. The ratings further note the company's vulnerability to fluctuations in raw material prices, primarily steel and steel components. Nevertheless, the company's ability to pass on these costs to customers provides comfort.

Key rating drivers and their description

Credit strengths

Healthy improvement in earnings expected in FY2025 - In FY2024, PTPL's consolidated revenue increased by ~11%, which is expected to improve further in FY2025. The operating margin also remained healthy at ~25.8% in FY2024 from 24% reported in FY2023, owing to the enhanced operating leverage, focus on cost efficiencies as well as prudent product mix towards high-margin products. Going forward, PTPL's performance is expected to remain comfortable with strong order execution and a healthy operating margin.

Healthy capital structure and debt protection metrics - PTPL's capital structure remains comfortable, as reflected by nil gearing and a total outside liability to tangible net worth ratio of 0.4 times as on March 31, 2024 (PY: 0.6 times). Healthy profits and a conservative capital structure led to strong debt coverage metrics, with interest coverage of 94.1 times in FY2024. While ICRA notes that the company has sizeable capex planned for its capacity expansion in the medium term, the company is likely to fund a substantial portion of the capex through internal accruals, thus limiting its long-term debt requirement. Consequently, PTPL's capital structure and debt coverage indicators are expected to remain comfortable.

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+ (Stable)/[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 (~35-40% of total sales) as per the predefined specifications and customised products (~60-65% of total sales) for various industry segments. Additionally, the company has a well-diversified dealer network, 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. 705 crore in FY2024, representing a YoY growth of ~11%, backed by healthy order inflows. The company's order book position remains healthy, with outstanding orders of ~Rs. 320 crore as of July 2024 (~45% of FY2024 revenue) compared to Rs. 250 crore as on March 31, 2023, providing better revenue visibility.

Credit challenges

Revenues exposed to cyclicality in end-user industries – PTPL's revenues are exposed to cyclicality in the economic environment, and consequently, industrial capacity additions. Its performance is particularly dependent on capex plans of key industries such as power, steel, cement, sugar and others. With a considerable revenue share from the primary market, any economic slowdown could adversely impact the company's revenues. However, PTPL's presence across multiple segments mitigates the risk to an extent. Steel is one of the major raw materials for the company's operations, making its margins susceptible to fluctuations in steel prices. Nonetheless, PTPL's ability to pass on the increased cost of raw material prices to its customers, and raise prices in case of new orders, provide comfort to an extent.

High working capital intensity – The company's working capital intensity is high at 27% as on March 31, 2024, primarily on account of high receivables and inventory levels required in the transmission division, which is consistent with the industry requirements. However, the company has a stringent policy to take advances from selected customers to better support its working capital requirements and minimise order cancellations.

Sizeable capex plan exposes to execution risk – PTPL is undertaking a sizeable capex over the next 18-24 months to enhance the installed capacities at its various facilities, exposing the company to project execution risks. However, the company is likely to fund a substantial portion of the capex through internal accruals, limiting its 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 balances of Rs. 30 crore as on March 31, 2024 and adequate cushion available in the form of undrawn lines of credit in its working capital facilities. The average monthly working capital utilisation remained minimal at less than 5% of the sanctioned working capital limits in FY2024 and Q1 FY2025. Further, ICRA notes that the margin requirements for the company's planned capex in the next two years can be comfortably met from internal accruals and surplus cash.

Rating sensitivities

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

Negative factors – Pressure on the ratings could arise if there is sustained pressure on the company's earnings, large debt-funded capex or a stretch in working capital requirements, leading to a deterioration in the entity's credit metrics. Specific credit metrics that could lead to a rating downgrade include total debt/OPBITDA exceeding 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	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

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

Key financial indicators (audited)

PTPL Consolidated	FY2023	FY2024
Operating income	633.2	705.1
PAT	82.7	131.2
OPBDIT/OI	24.0%	25.8%
PAT/OI	13.1%	18.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	81.6	94.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sep 03, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based - Term Loan	Long-term	-	-	25-Aug-23	[ICRA]AA- (Stable)	29-Jul-22	[ICRA]A+ (Stable)	02-Aug-21	[ICRA]A+ (Stable)
Fund based	Long-term/ Short-term	124.50	**[ICRA]AA- (Positive)/[ICRA] A1+**	25-Aug-23	[ICRA]AA- (Stable)/ [ICRA]A1+	29-Jul-22	[ICRA]A+ (Stable)/ [ICRA]A1	02-Aug-21	[ICRA]A+ (Stable)/ [ICRA]A1
Non-fund based – Others	Long-term/ Short-term	22.90	**[ICRA]AA- (Positive)/[ICRA] A1+**	25-Aug-23	[ICRA]AA- (Stable)/ [ICRA]A1+	29-Jul-22	[ICRA]A+ (Stable)/ [ICRA]A1	02-Aug-21	[ICRA]A+ (Stable)/ [ICRA]A1
Interchangeabl e-Others	Long-term/ Short-term	(22.90)	**[ICRA]AA- (Positive)/[ICRA] A1+**	25-Aug-23	[ICRA]AA- (Stable)/ [ICRA]A1+	29-Jul-22	[ICRA]A+ (Stable)/ [ICRA]A1	02-Aug-21	[ICRA]A+ (Stable)/ [ICRA]A1
Unallocated	Long-term/ Short-term	-	-	25-Aug-23	[ICRA]AA- (Stable)/ [ICRA]A1+	29-Jul-22	[ICRA]A+ (Stable)/ [ICRA]A1	02-Aug-21	[ICRA]A+ (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund based	Simple
Long term/Short term – Non-fund based – Others	Very simple
Long term/Short term – Interchangeable – Others	Very simple

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/Short term – Fund based**	NA	NA	NA	124.50	[ICRA]AA- (Positive)/[ICRA]A1+
NA	**Long term/Short term – Non-fund based – Others**	NA	NA	NA	22.90	[ICRA]AA- (Positive)/[ICRA]A1+
NA	**Long term/Short term- Interchangeable- Others**	NA	NA	NA	(22.90)	[ICRA]AA- (Positive)/[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	Consolidation Approach
Premium Stephan B.V.	100%	Full Consolidation
Premium Motion Private Limited	100%	Full Consolidation

Source: Company

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Devanshu Gupta
+91 124 4545 321
devanshu.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches