November 11, 2024 (Revised)

Pinnacle Industries Limited: [ICRA]BBB+ (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	30.00	[ICRA]BBB+ (Stable); assigned
Total	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to the bank lines of Pinnacle Industries Limited (PIL) factors in the significant experience of the promoters in the domestic automotive seating systems business, design and fabrication of ambulances and railway coaches along with an established track record of operations over the past three decades. The rating also factors in the strong revenue growth in the recent years (with a robust CAGR of 22% between FY2020 and FY2024), backed by healthy demand from its diversified product segments and established relationship with various original equipment manufacturers (OEMs) such as Force Motors Limited (FML), Volvo Eicher Commercial Vehicles Limited (VECV), Ashok Leyland Limited (ALL), etc., with which it enjoys a high share of business. The rating also considers PIL's technology tie-ups with the Dutch Conglomerate, VDL International, which supplies latest technologies for seating systems for commercial vehicles (CV) globally. PIL's financial profile remains comfortable, as reflected by Total Debt/ OPBDITA of 1.5 times, interest coverage ratio of 4.5 times and DSCR of 2.5 times as of March 31, 2024. ICRA expects the same to improve further, supported by an increase in PIL's operating profit margin (OPM) due to higher contribution of revenues from the ambulances and railway coaches' businesses. ICRA notes that PIL's subsidiary – Pinnacle Mobility Solutions Private Limited (PMSPL, involved in manufacturing e-buses), to which PIL has extended financial support in the recent past, has received funding of ~Rs. 850 crore from private equity investors over FY2024 and FY2025, which will help meet its funding requirements over the near-to-medium term. As indicated by the management, ICRA does not expect any incremental financial support from PIL to PMSPL or any other associate entity in the Group, and thus the rating is based on the standalone financials of PIL.

The rating, however, is constrained by PIL's modest scale of operations, with revenues of Rs. 401.0 crore in FY2024 (previous year [PY]: Rs. 407.0 crore). Further, PIL's business profile remains vulnerable to the relatively higher exposure to a single customer, which contributed ~56% to its FY2024 revenues. While the company is taking steps to gradually reduce its exposure towards a single customer by expanding its clientele in the automotive as well as non-automotive business verticals, the customer concentration is expected to remain high over the medium term. PIL also remains exposed to the cyclicality inherent in the auto industry and the volatility with respect to the tender-based business for ambulances and railways segments. Nevertheless, the established track record of promoters in the auto components industry as well as PIL's status as one of the leading ambulance manufacturers in the domestic market provides some comfort.

The Stable outlook on the rating reflects ICRA's opinion that the company's credit profile is likely to remain comfortable, supported by healthy demand from all its product segment and its strong clientele.

Key rating drivers and their description

Credit strengths

Experienced promoters and established track record of operations – The promoters of PIL have been involved in the seating systems business for more than three decades. Promoted by Dr. Sudhir Mehta, Pithampur-based PIL was incorporated in 1996 for manufacturing automotive seating systems and auto components for CV manufacturers. Over the years, the company has attained operational diversification by venturing into manufacturing of automotive interiors, electric vehicle (EV) components, railway seatings, and specialty vehicles (ambulances). PIL's established track record in the seating system industry and its strong operational profile lend healthy revenue visibility.

Comfortable financial profile backed by healthy demand for its products from diversified end-user segments and established relationship with customers with high share of business – PIL has a comfortable financial risk profile, reflected by its improved profit margins and debt coverage metrics. Its OPM stood at 12.4% in FY2024 (PY: 8.8%), supported by increased contribution from the high-margin ambulance and seating system segments. PIL's dependence on debt has remained limited, which has translated into a comfortable financial profile. The capital structure of the company has remained comfortable with a gearing of 0.5 times and Total Debt/OPBITDA of 1.5 times as on March 31, 2024. Moreover, the debt-coverage indicators also remained comfortable with an interest cover of 4.5 times and DSCR of 2.5 times in FY2024. PIL's clientele includes reputed original equipment manufacturers (OEMs) like FML, VECV, ALL, etc. The company is the sole supplier of automotive seatings to FML and enjoys a strong share of business with other key clients. ICRA expects PIL's debt coverage metrics to improve further, supported by an improvement in its OPM due to higher contribution of revenues from ambulances and railway coaches' businesses.

Market leader in the domestic CV market for its advanced seating systems, in addition to product innovation through technological tie-ups – PIL supplies advanced seating systems and interiors to CVs such as buses, e-buses and trucks to OEMs such as FML, Olectra, JBM, VECV, etc. The company has a technological collaboration with various global auto component manufacturers and service providers, including VDL, a Dutch conglomerate, for providing industrial automation solutions, BIW tooling lines and product design for buses and coaches. It has formed a JV with VDL, named VDL Pinnacle Engineering India Private Limited for this purpose. Association with a global conglomerate such as VDL provides operational synergies to PIL in the form of technical know-how and access to overseas markets for its product offerings.

Credit challenges

Modest scale of operations – With revenues of ~Rs. 401 crore in FY2024, PIL's scale of operations remains modest, which limits its economies of scale. The company registered a slight YoY decline in revenues in FY2024 due to deferral of sales in the ambulance segment, while for H1 FY2025, the company has reported revenues of Rs. 201.6 crore as per provisional financials (against Rs. 193.7 crore in H1 FY2024). The company is expected to report a YoY growth of 13-15% in revenues in FY2025, driven by healthy demand across business verticals. ICRA notes the healthy order book position of the company for the ambulance division, which should support revenue growth momentum over the near term. Besides, PIL's increasing focus on the ambulance and railways segment, which are margin accretive businesses, will support improvement in its OPM.

Relatively higher exposure to a single client – FML, PIL's top customer, accounted for ~56% of its revenues in FY2024. This exposes the company to high customer concentration risk. However, the same is partially mitigated by the company's sole supplier status for seating systems with FML. Additionally, its customer concentration is expected to moderate gradually over the medium term, aided by PIL's efforts to acquire new clients in automotive and non-automotive business verticals.

Revenue profile exposed to cyclicality inherent in auto industry and volatility with respect to tender business for the ambulance segment – Given the dependence of PIL on the auto sector, it exposes the company to the inherent cyclicality in demand, and thus revenues and earnings, in line with the industry trend. Nevertheless, the company's efforts to diversify across segments, helps mitigate these risks to some extent. Further, the company faces volatility with respect to the tender business for the ambulance segment, although the company expects high demand from the segment in the near term.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by free cash and bank balances and liquid investments of Rs. 4.3 crore and buffer of Rs. 13.7 core in the form of undrawn working capital limits as of March 31, 2024, and Rs. 3.6 crore as on September 30, 2024. The company expects healthy cash accruals of Rs. 40-50 crore in FY2025, which are adequate for debt repayments of around Rs. 15 crore. The company also plans to incur a capex of ~Rs. 50 crore, which will be partly funded by term loan (yet to be sanctioned) of ~Rs. 35 crore and the rest by internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale-up in revenues and earnings of the company on a sustained basis, along with diversification in its customer profile.

Negative factors – The rating could witness a downgrade in case of any significant decline in revenues and earnings of the company, resulting in a deterioration in the debt protection metrics on a sustained basis. Further, any sizeable debt-funded capex or higher working capital requirement, adversely impacting the liquidity position of the company, can trigger a downward rating revision. Specific credit metric for downgrade includes DSCR of less than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of PIL

About the company

Promoted by Dr. Sudhir Mehta, Pithampur-based PIL was incorporated in 1996 for manufacturing automotive seating systems and auto components for the Commercial Vehicles (Medium Commercial Vehicles, Light Commercial Passenger Vehicles) manufacturers. PIL's current product profile includes automotive seating systems, moulded interiors and components and conversion, customisation and modernisation of vehicles with major focus on design, fabrication and modernisation of ambulances.

Key financial indicators (audited)

PIL Standalone	FY2023	FY2024
Operating income	407.0	401.0
PAT	14.0	24.3
OPBDIT/OI	8.8%	12.4%
PAT/OI	3.4%	6.1%
Total outside liabilities/Tangible net worth (times)	1.3	1.2
Total debt/OPBDIT (times)	2.2	1.5
Interest coverage (times)	3.7	4.5

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

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Nov 11, 2024	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	30.00	**[ICRA]BBB+ (Stable)**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	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	**Cash Credit**	NA	10.50%	NA	30.00	[ICRA]BBB+ (Stable)

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

Corrigendum

Documented dated November 11, 2024 is corrected with revisions as detailed below:-

Revision: Current Rating of entity as on 11-Nov-2024 added in rating history table.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Aditya Lade
+91 22 6114 3451
aditya.lade@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
yashowardhan.swami@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.

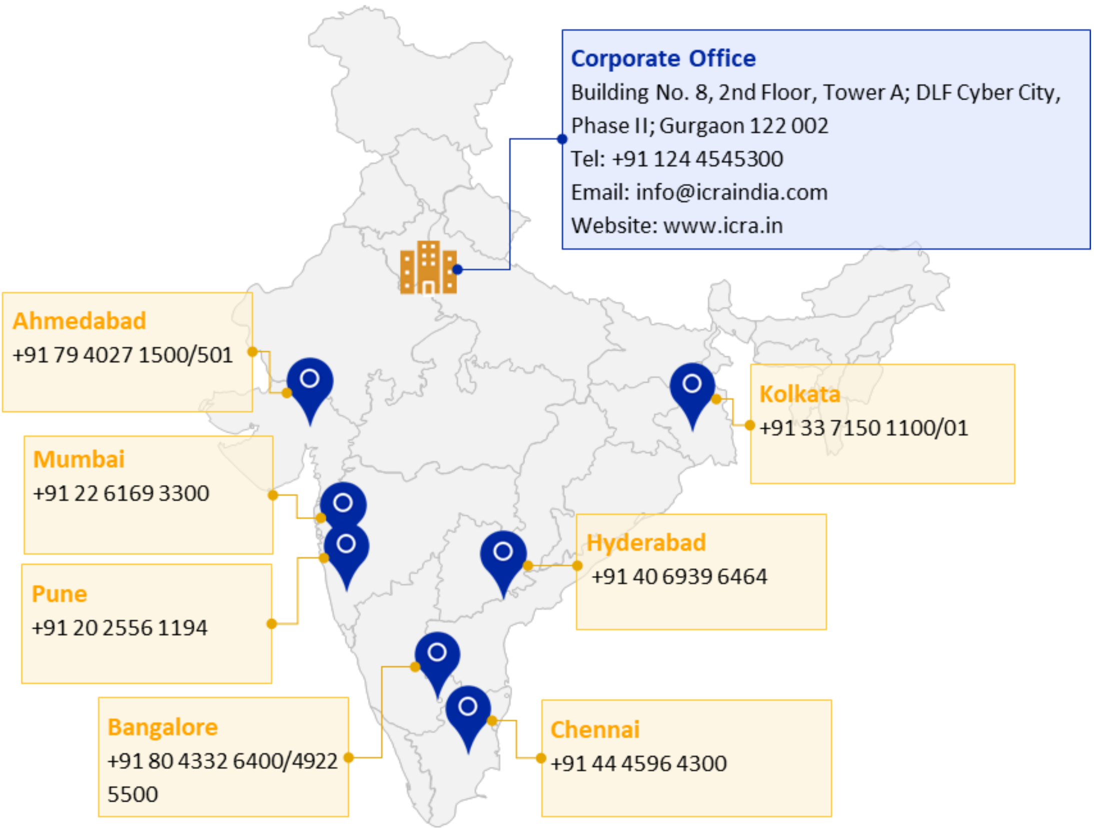
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.