March 13, 2025

Patton International Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities^	15.00	15.00	[ICRA]AA- (Stable), reaffirmed
Short-term Fund-based – Working Capital Facilities#	115.00	115.00	[ICRA]A1+, reaffirmed
Short-term – Non-Fund based – Working Capital Facilities	30.00	30.00	[ICRA]A1+, reaffirmed
Total	**160.00**	**160.00**	

** Instrument details are provided in Annexure – I*

^ Both way interchangeable among cash credit/WCDL and export credit facilities

 # 100% interchangeable among pre-shipment and post-shipment facilities

Rationale

The reaffirmation of the ratings considers the comfortable financial risk profile of Patton International Limited (PIL) in FY2024 and FY2025, with improvement in sales volumes resulting in an improvement in turnover and healthy margins, leading to strong debt coverage indicators. While the performance remained impacted in FY2023, recording a decline in revenues to Rs. 603 crore constrained by a slowdown in export demands, the same rebounded to Rs. 721 crore in FY2024. This increasing trend has continued till 9M FY2025 with a revenue ~Rs. 570 crore of revenues, maintaining the momentum despite the decline in average realisation. The operating margin is expected to remain healthy in FY2025, resulting in a comfortable OPBDITA and strong cash flows from operations. While the liquidity balances had reduced in FY2024 post demerger of a major portion of PIL's investment portfolio to another Group company, the liquidity amount continues to remain comfortable. In addition, the buffer in the working capital limits, with average utilisation of 45-50%, provides comfort.

The ratings continue to factor in the established track record of PIL in the export market for supply of conduit fittings with a long-standing reputed clientele reflecting the credibility of its products. ICRA notes that the entry barriers in this line of business remains high with the stringent quality norms requiring certification. The offtake risk for the company remains low as the major part of the production of conduit fittings is order backed. The ratings continue to derive comfort from PIL's healthy margins, a conservative capital structure and strong debt protection metrics, which are likely to continue going forward. The ratings also favourably consider PIL's market position in the plastic water tank manufacturing business in West Bengal, although contribution from the same to the top line stands minimal over the past years.

The ratings, however, continue to remain constrained by the company's moderate scale of current operations, high working capital intensity owing to a stretched receivables position, and significant client concentration risk with around 90% of the export business derived from the top clients. While the operating income declined in FY2023 to around Rs. 603 crore, it had improved to Rs. 721 crores in FY2024. Nonetheless, the overall scale of operations remains moderate. Further, any consistent unfavourable operating environment in the US, its target market, and/or increased competition, which could affect PIL's top line and result in a material decline in cash accruals from the business, would also remain a key credit concern, going forward.

While PIL remains exposed to fluctuations in foreign currency rates, its practice of entering into forward contracts partially to hedge against any adverse currency movement mitigates such risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's expectations that PIL would continue to maintain a conservative capital structure and an adequate liquidity position, thus supporting its credit profile.

Key rating drivers and their description

Credit strengths

Established track record of operations; repeat orders from reputed clientele support its export sales – PIL's revenue from export sales witnessed a CAGR of around 17% during FY2018-2024, supported by repeat orders from its reputed clientele, which reflects the acceptability of the company's products in the US market. While the revenue declined in FY2023, the same has improved in FY2024 to a large extent and is likely to witness growth in the current fiscal as well. The company has a reputed clientele, which includes large players in the field of electronics/electrical fittings based in the US. Although a reputed client profile mitigates the counterparty risk to a large extent, PIL remains exposed to high geographical concentration risk as almost the entire revenue from the sale of conduit fittings is derived from the US market.

Order-backed production eliminates offtake risk to a large extent; exposed to fluctuations in steel prices – The major part of the production of conduit fittings is backed by confirmed orders, which reduce the company's offtake risk. Steel prices have witnessed substantial fluctuations in the past, which are likely to keep the profitability and cash flows of the company susceptible to volatility in input and output prices. However, in the past, the company has been able to re-negotiate prices of the products with its customers to pass on the increased steel price to an extent.

Entry barriers reduce competition – All the electrical fittings manufactured by the company are certified by Underwriters Laboratories, an independent product safety certification organisation. Besides, PIL has in-house laboratories at each of its manufacturing locations to maintain strict control over its manufacturing process. ICRA notes the entry barriers in PIL's line of business, given the stringent quality norms expected by the key customers, which reduce competition.

Comfortable financial risk profile, as reflected by healthy margins, a conservative capital structure and strong debt protection metrics – The operating profit margin (OPM) of PIL remained in the range of 17-20% in the last three years with stabilisation of its new plant at Uluberia, West Bengal. Further, an increase in share of more value-added products (aluminium/ zinc conduit fittings) and control over overhead expenses supported improvement in the OPM. The capital structure of the company has remained conservative over the past years owing to a healthy net worth and low reliance on external debt. PIL's coverage indicators continued to remain strong on account of healthy profits as well as cash accruals and low debt level. The rise in profits and cash accruals from the increased scale, has supported the leverage and coverage indicators, as reflected by a conservative Total Debt/OPBDIT of 0.4 times (0.5 times in FY2023) and a healthy net cash accrual relative to the total debt of 172% (171% in FY2023) in FY2024.

Credit challenges

High customer concentration risk as the major portion of export business is generated from major customers – PIL remains exposed to the high client concentration risk as the major portion of its export business is derived from the top five clients. Moreover, the company's export is made on a collection basis, which exposes it to the counterparty risk as well. However, a reputed client base, coupled with PIL's long-term relationship with its clients, mitigates such risk to a large extent. Since FY2020, sales to its major customers are being routed through its marketing arm, Patton International Inc., a subsidiary of PIL, based in the US.

Exposed to fluctuations in foreign currency rates; mitigated to some extent by PIL's hedging mechanism – Almost the entire portion of conduit fittings manufactured by PIL is exported to the US. While the company remains exposed to fluctuations in the foreign currency rates, its practice of entering into forward contracts partially to hedge against any adverse currency movement mitigates the risk to some extent. Moreover, PIL imports some of its raw materials and consumables and pays shipping charges in foreign currency, which provide it with a natural hedge against any adverse movement in exchange rates. However, the absolute value of such imports remains low.

Working capital intensive nature of operations– Significant receivables keep the company's operations working capital intensive, as reflected by the net working capital relative to the operating income of 34% (30% in FY2023) in FY2024, which in turn exert pressure on its liquidity position. Given the nature of its operations, PIL's working capital intensity of operations would continue to remain at an elevated level, going forward.

Moderate scale of operations- PIL's scale of operations continued to remain moderate. While the operating income declined in FY2023 to around Rs. 603 crore, it had improved to Rs. 721 crores in FY2024. Nonetheless, the overall scale of operations remains moderate. Further, any consistent unfavourable operating environment in the US, its target market, and/or increased competition, which could affect PIL's top line and result in a material decline in cash accruals from the business, would also remain a key credit concern, going forward.

Liquidity position: Adequate

The company generated positive cash flow from operations in FY2024, despite the increase in working capital requirement. The cash flow from operations is likely to remain positive in FY2025 as well and with limited capital expenditure requirement, the liquidity is expected to increase in the current fiscal. The average utilisation of fund-based working capital limits remained at a moderate level of 52% during the last 15 months, ending in January 2024. PIL had a large portfolio of cash/bank balance and liquid investments as on March 31, 2024, which is likely to increase in the current fiscal as well. ICRA expects PIL's liquidity position to continue to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade PIL's long-term rating if the company substantially increases its scale of operations while maintaining a healthy operating margin and diversifying its customer base. Specific credit metric that may lead to a rating upgrade includes RoCE of more than 22% on a sustained basis.

Negative factors – Pressure on PIL's ratings may arise if there is a significant drop in profitability and/or an increase in the working capital intensity of operations, adversely impacting the debt coverage metrics and liquidity position of the entity. Further erosion of the liquidity buffer may also result in ratings downgrade.

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 standalone financial statements of the company

About the company

Incorporated in 1990, Patton International Limited (PIL) manufactures steel/ aluminium/ zinc conduit fittings, which include locknuts, EMT fittings, hangers and clamps among others, essentially used in the real estate and construction industry. The company has two manufacturing facilities in Kolkata (Behala and Garia), one in Falta, and one in Uluberia, in West Bengal. Almost all the conduit fittings manufactured by the company are exported to the US, while the plastic products are sold in the domestic market.

In October 2023, the National Company Law Tribunal (NCLT) approved Patton International Limited's (transferor company) demerger of its investment portfolio and plastic pipe manufacturing unit at Kodalia, West Bengal by vesting the same into two separate group entities with effect from April 1, 2023.

Key financial indicators (audited)

PIL, Standalone	FY2023	FY2024	H1 FY2025*
Operating income	602.8	721.1	393.4
PAT	107.2	130.7	69.9
OPBDIT/OI	20.6%	19.7%	22.1%
PAT/OI	17.8%	18.1%	17.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.4	0.5
Total debt/OPBDIT (times)	0.3	0.5	0.4
Interest coverage (times)	106.1	43.5	36.5

*Source: Patton International Limited, ICRA Research; * Provisional numbers; 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 (FY2025)			Chronology of rating history for the past 3 years										
		FY2025			FY2024				FY2023		FY2022				
		Type	Amount rated (Rs. crore)	Mar 13, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
1	**Fund-based – Working Capital Facilities^**	Long term	15.00	[ICRA]AA- (Stable)	07-Mar-2024	[ICRA]AA- (Stable)	10-Apr-2023	[ICRA]AA- (Stable)	-	-	07-Mar-2022	[ICRA]AA- (Stable)	07-Apr-2021	[ICRA]AA- (Stable)
2	**Fund-based – Working Capital Facilities#**	Short term	115.00	[ICRA]A1+	07-Mar-2024	[ICRA]A1+	10-Apr-2023	[ICRA]A1+	-	-	07-Mar-2022	[ICRA]A1+	07-Apr-2021	[ICRA]A1+
3	**Non-Fund based – Working Capital Facilities**	Short term	30.00	[ICRA]A1+	07-Mar-2024	[ICRA]A1+	10-Apr-2023	[ICRA]A1+	-	-	07-Mar-2022	[ICRA]A1+	07-Apr-2021	[ICRA]A1+

^ Both way interchangeable among cash credit/WCDL and export credit facilities

 # 100% interchangeable among pre-shipment and post-shipment facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Short-term fund-based – Working Capital Facilities	Simple
Short-term non-fund based – Working Capital Facilities	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	**Cash Credit/ WCDL^**	-	-	-	15.00	[ICRA]AA- (Stable)
NA	**EPC/ PCFC/ FBP/FBD/ FUBD/ PSFC#**	-	-	-	115.00	[ICRA]A1+
NA	**Letter of Credit**	-	-	-	15.00	[ICRA]A1+
NA	**Bank Guarantee**	-	-	-	15.00	[ICRA]A1+

Source: Patton International Limited

^ Both way interchangeable among cash credit/WCDL and export credit facilities

 # 100% interchangeable among pre-shipment and post-shipment facilities

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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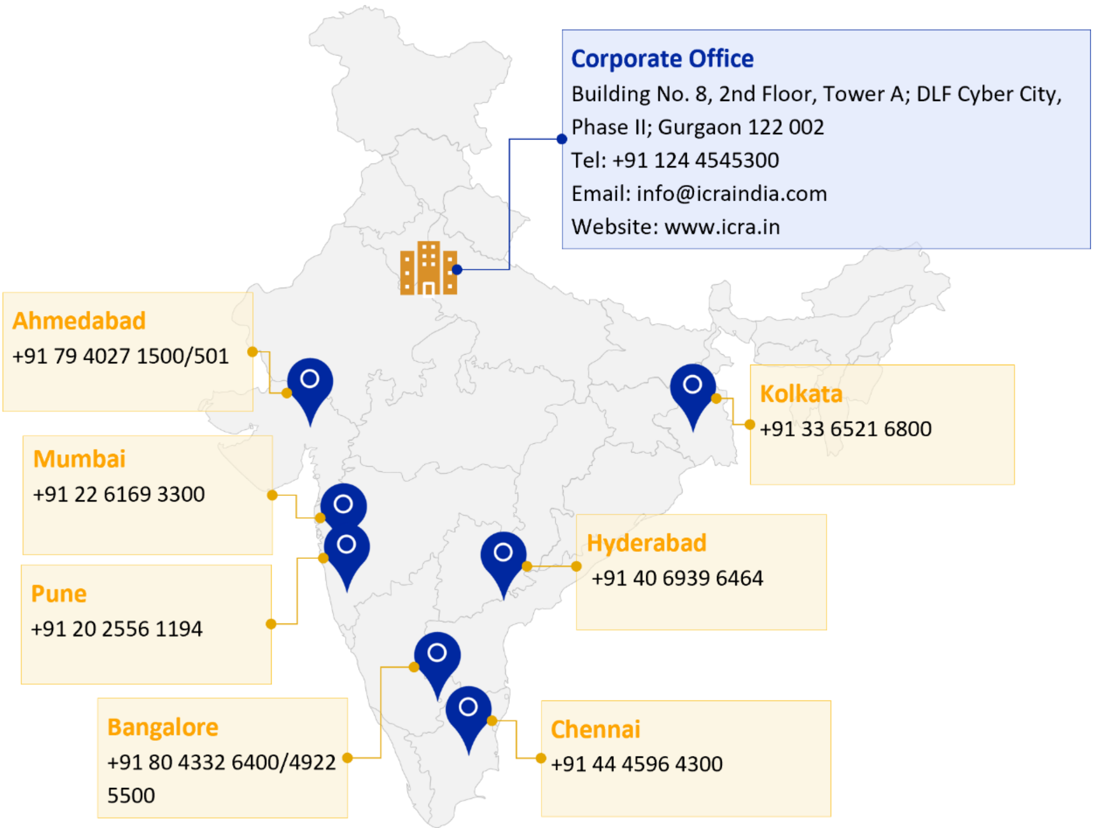

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