

February 23, 2024

Pyrotech Electronics Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	56.00	61.00	[ICRA]BBB- (Stable); reaffirmed/assigned
Long-term – Fund-based – Standby line of credit	5.00	5.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based – Term Loan	5.37	6.84	[ICRA]BBB- (Stable); reaffirmed/assigned
Long-term – Non-fund based – Bank guarantee	58.00	81.50	[ICRA]BBB- (Stable); reaffirmed/assigned
Long-term – Interchangeable	(9.00)	(14.00)	[ICRA]BBB- (Stable); reaffirmed/assigned
Long-term – Unallocated limits	25.63	0.16	[ICRA]BBB- (Stable); reaffirmed
Total	150.00	154.50	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Pyrotech Electronics Private Limited (PEPL) considers the expectations of stable financial performance in the near term, with satisfactory order book of ~Rs. 258 crore as on December 31, 2023 (1.1 times of FY2023 operating income) for the panel and LED division, which provides near-term revenue visibility. The rating also continues to factor in the extensive experience of PEPL's promoters, which has enabled repeat orders from established customers supporting the order book. The liquidity position is also supported by limited debt obligation and capex plans in the near to medium term, coupled with recent enhancement in working capital limits (both fund and non-fund) in December 2023. The enhancement is expected to support the liquidity and enable the company to bid bigger orders going forward.

The rating is, however, constrained by the moderate scale of operation and elongated working capital cycle for PEPL, driven largely by the long receivable cycle primarily for its panel division as well as high inventory level on an overall basis. The net working capital/operating income (NWC/OI), hence, remained high at 41% in FY2023 but moderated from 45% in FY2022 owing to faster realisation due to bill discounting facility available for its few key clients. The debt coverage metrics continues to be at average levels due to moderate profitability and relatively higher working capital borrowing requirements. The rating also continues to be constrained by vulnerability of margins to commodity prices (mainly steel) and exposure to time and cost overruns in the projects business. The rating also remains constrained by the company's high customer concentration of 31% from a single customer in FY2023. However, the concentration is expected to reduce with gradual addition of orders from other customers.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that PEPL will maintain its debt protection metrics commensurate with the existing rating and continue to benefit from the extensive experience of its promoters, and satisfactory order book position.

Key rating drivers and their description

Credit strengths

Experienced promoters and strong relationships with clients – The company’s promoters have vast experience in the electricals and electronics industry. They have built strong relationships with key clients, such as Bharat Heavy Electricals Limited (BHEL), which enables PEPL to receive repeat orders. Further, there is a track record of infusion of unsecured loans from Group companies or by the promoters to support the liquidity profile.

Growing revenue diversity – In the last few years, the company increased its focus on new sectors like power transmission, glass, chemicals, etc, in panels and has been operating as a contract manufacturer for LED majors. It has added new products in its portfolio like high-density motor control centre (MCC) panels, e-kiosks, smart bus shelters and control panels for petrol pumps. The company has also added new clients in different sectors, which led to a healthy build-up of its order book. Over the years, PEPL has served as a qualified vendor of control panels for various clients and has established its track record with repeat orders for engineering majors like BHEL, Siemens, Alstom, etc. However, the shift to other sectors for panel orders and traction in the LED business has increased revenue diversity, thereby reducing dependence on a few sectors. ICRA, however, expects the panel division to continue to dominate PEPL’s revenue stream.

Satisfactory order book renders revenue visibility – In the current year, PEPL has received large orders from various clients in the panels division for its new product line developed in the last five years. Along with the LED driver division, this accounted for an outstanding order book of Rs. 258 crore as on December 31, 2023, which provides adequate revenue visibility in the near term. However, ICRA notes that the company is exposed to high customer concentration as 32% of total revenues in FY2023 and 31% of total pending orders as on December 31, 2023, was from a single customer. However, the concentration is expected to reduce going forward with gradual addition of orders from other customers as well.

Credit challenges

Moderate scale of operations – Although the company reported revenue growth of 22% in FY2023 to Rs. 244.5 crore over Rs. 199.8 crore in FY2022, the scale of operations remains moderate. Further, the operating margins declined to 8.0% in FY2023 over 9.0% in FY2022, given stiff competition in business, as well as inflationary cost regime. The company is expected to report ~15% revenue growth in FY2024, with margin expected to remain at 8-8.5% levels.

High working capital intensity due to long receivable cycle – The working capital intensity has been historically high amid an elongated receivable cycle, as is prevalent in the sector. Traditionally, the working capital cycle remains long as the manufacturing process in turnkey projects requires multiple approvals from clients and the payment is linked to the installation and defect liability period. Hence, the receivable days stood high at 124 in FY2023 (139 in FY2022). The inventory days also remained high on account of high inventory maintained for control panels, LED drivers and high inventory of finished goods for the LED division as it is volume driven. The inventory stood at 146 days in FY2023 (150 days in FY2022). The NWC/OI marginally improved to 41% in FY2023 over 45% in FY2022 owing to lower debtor days. ICRA notes that the company’s improvement in debtor days is due to availing of billing discounting facility available for its few key clients. While the payment cycle in the LED division has been satisfactory, the company’s ability to manage its liquidity position, going forward, will remain a key monitorable.

Moderate capital structure and average debt coverage indicators – The company has high working capital requirements owing to its elongated working capital cycle. As a result, the capital structure remained relatively leveraged with gearing of 1.3 times as on March 31, 2023 (1.4 times as on March 31, 2022). The coverage indicators remained flat at average levels, reflected in DSCR of 1.8 times, interest coverage of 2.3 times and debt/EBDITA of 4.2 times in FY2023 (DSCR of 1.4 times, interest coverage of 2.2 times and debt/EBDITA of 4.2 times in FY2022). With growth in top line, the debt protection indicators are expected to gradually improve over the medium term.

Liquidity position: Adequate

PEPL's liquidity is **adequate**, given minimal repayment obligations and capex plans in the near to medium term, with sufficient cash accruals to service its debt obligations. Though the fund-based utilisation levels remain high, availability of sufficient drawing power provides buffer in terms of any enhancement needed, reflected in the recent enhancement in its working capital borrowings received in December 2023, which supports the liquidity profile. Presence of unsecured loans to the extent of Rs. 22.4 crore as of FY2023, up from Rs. 16.2 crore in FY022 also provides liquidity comfort, given ICRA's expectations of the same remaining in business.

Rating sensitivities

Positive factors – ICRA could upgrade PEPL's rating if steady improvement in its scale of operations, profitability and working capital cycle, leads to improvement in the overall financial profile and liquidity position, on a sustained basis.

Negative factors – ICRA could downgrade PEPL's rating if the company's scale and profitability decline significantly on a sustained basis. Deterioration in its working capital cycle impacting liquidity could also result in a downgrade. Specific negative trigger which can led to rating downgrade will be TOL/TNW remaining over 3.0 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

About the company

Pyrotech Electronics Private Limited (PEPL) was incorporated in 1991 by a group of four professionals namely brothers Mr C. P. Talesara, Mr P.S. Talesara and Mr V.P. Rathi and Mr N.K. Pandey. The group has divided its manufacturing units based on the application of its product in an environment. PEPL manufactures electronic instruments and related products. The company has three manufacturing units in Mewar Industrial Area in Udaipur. The units have franchisee arrangements and tie ups with international companies dealing with related product categories. The control room has various display equipment which indicate the parameters being measured in a user-friendly format. The instruments have circuitry aided by display items. Such instruments are manufactured by PEPL Unit I. From FY2015, the company started manufacturing LED drivers and LED lights in Unit I. The enclosures and panels which have all these instruments hardwired to are the control panel/desk, etc., which are manufactured by PEPL Unit II and IV.

Key financial indicators (audited)

PEPL Standalone	FY2022	FY2023
Operating income	199.8	244.5
PAT	5.9	5.8
OPBDIT/OI	9.0%	8.0%
PAT/OI	2.9%	2.4%
Total outside liabilities/Tangible net worth (times)	2.5	2.6
Total debt/OPBDIT (times)	4.2	4.2
Interest coverage (times)	2.3	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Feb 23, 2024	Nov 03, 2022	Oct 05, 2021	Mar 10, 2021	Apr 02, 2020
1 Fund-Based – Cash credit	Long-term	61.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)
2 Fund-based – Standby line of credit	Long-term	5.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-	-
3 Fund-Based - Term loan	Long-term	6.84	6.47	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)
4 Non-Fund Based - Bank Guarantee	Long-term	81.50	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)
5 Interchangeable*	Long-term	(14.00)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-	-
6 Unallocated limits	Long-term	0.16	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)
7 Non-Fund Based – Letter of Credit	Long-term	-	-	-	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)

* Sublimit of Bank Guarantee

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund-Based – Cash Credit	Simple
Long Term – Fund-Based – Standby Line of Credit	Simple
Long Term – Fund-Based – Term Loans	Simple
Long Term – Non-Fund Based – Bank Guarantee	Very Simple
Long Term – Interchangeable	Very Simple
Long Term – Unallocated Limits	Not Applicable

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	Fund-based – Cash Credit	NA	NA	NA	61.00	[ICRA]BBB- (Stable)
NA	Fund-based – Standby Line of Credit	NA	NA	NA	5.00	[ICRA]BBB- (Stable)
NA	Fund-based – Term Loan	FY2020	NA	FY2028	6.84	[ICRA]BBB- (Stable)
NA	Non-fund Based – Bank Guarantee	NA	NA	NA	81.50	[ICRA]BBB- (Stable)
NA	Interchangeable*	NA	NA	NA	(14.00)	[ICRA]BBB- (Stable)
NA	Unallocated Limits	NA	NA	NA	0.16	[ICRA]BBB- (Stable)

Source: Company, * Sublimit of Bank Guarantee

[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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About ICRA Limited:

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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.

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Branches



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