

March 07, 2024

## 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 <sup>^</sup>	15.00	15.00	[ICRA]AA- (Stable), reaffirmed
Short-term Fund-based – Working Capital Facilities <sup>#</sup>	115.00	115.00	[ICRA]A1+, reaffirmed
Short-term – Non-Fund based – Working Capital Facilities	30.00	30.00	[ICRA]A1+, reaffirmed
<b>Total</b>	<b>160.00</b>	<b>160.00</b>	

\* Instrument details are provided in Annexure – I

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

<sup>#</sup> 100% interchangeable among pre-shipment and post-shipment facilities

### Rationale

The reaffirmation of the ratings considers the established track record of operations of Patton International Limited (PIL) in the overseas market for supply of conduit fittings and repeat orders from its reputed clientele, supporting its export sales, which reflects the credibility of the company's products in the US market. ICRA notes the entry barriers in PIL's line of business because of the superior quality expected by the key customers, which reduce competition. The offtake risk for the company is low as the major part of the production of conduit fittings is backed by confirmed orders. 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 of the same to the top line stood at a low level over the past years.

The ratings, however, continue to remain constrained by the company's moderate scale of current operations, high working capital intensity due to a stretched receivables position, and significant client concentration risk as around 90% of the export business is derived from the top five clients. ICRA notes that the top line of the company witnessed a sharp fall in FY2023 due to slowdown in demand from the US, PIL's main export destination along with a moderation in realisation. However, with the economic revival in the US, the offtake has been rising in the second half of the current fiscal, which is likely to lead to a top line growth in FY2024 on a YoY basis. 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 ratings also factor in the impact of the demerger of a major portion of PIL's investment portfolio to another Group company, which would significantly affect its liquidity buffer. 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 credit concerns, going forward.

The Stable outlook on the long-term rating reflects ICRA's expectations that an established track record of the company's operation in the conduit fittings business in the US market, its conservative capital structure and an adequate liquidity position would continue to support its business and credit profiles.

## 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 12% during FY2018-2023, supported by repeat orders from its reputed clientele, which reflects the acceptability of the company's products in the US market. ICRA also notes the entry barriers in PIL's line of business, given the stringent quality norms of key customers, which reduce competition. 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 11-13% during the past few years, till FY2021. However, stabilisation of its new plant at Uluberia, West Bengal along with the increasing share of more value-added products (aluminium/ zinc conduit fittings) and control over overhead expenses resulted in an improvement in the OPM to around 18% in FY2022 and further to around 21% in FY2023. The net margin of the company is supported by sizeable non-operating income, primarily in the form of interest, dividend/ short-term capital gain and foreign exchange gain, and stood at a healthy level. 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. With a rise in profits and cash accruals from the business, the coverage indicators have also improved, as reflected by the total debt relative to OPBDIT of 0.3 times (0.6 times in FY2022) and net cash accruals relative to the total debt of 308% (129% in FY2022) in FY2023. Despite some likely moderation in the profit and cash accruals from the business in the coming years, primarily in view of reduced non-operating income (post demerger of the investment portfolio to a Group company) compared to that generated earlier, ICRA expects the coverage indicators of the company to remain strong. ICRA does not foresee any major deterioration in the capital structure and debt protection metrics of the company, going forward.

### Credit challenges

**Moderate scale of current operations; sharp fall in the top line witnessed in the last fiscal** – The operating income of PIL increased gradually to around Rs. 744 crore in FY2022 from around Rs. 353 crore in FY2018, primarily driven by a steady increase in export sales from the engineering division. However, economic slowdown in the US, leading to a significant decline in the off-take of the engineered products in H2 FY2023, and fall in the overall realisation, driven by moderation in the steel price along with reduced shipping costs, led to a sharp drop in the operating income of PIL to around Rs. 603 crore in FY2023, registering a fall of around 19% on a YoY basis. Although the performance of the company in H1 FY2024 was not promising vis-à-vis H1 FY2023, the offtake has been rising in H2 FY2024, led by economic revival in the US. ICRA expects the overall top line of the company to register a growth of around 10% in FY2024 on a YoY basis.

**High customer concentration risk as the major portion of export business is generated from top five 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 three of 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.

**Demerger of a major portion of the investment portfolio to another Group company likely to impact liquidity buffer** – The company had a sizeable investment portfolio, comprising investment in quoted equity shares, unquoted equity shares, mutual funds, bonds and FDRs. NCLT has approved the de-merger plan of the major portion of its investment portfolio to another Group company held by the same promoters with effect from April 2023. While RoCE of the business would have a favourable impact post shifting of the investment portfolio, the overall liquidity buffer, which was available to the company, would reduce to a large extent. Nevertheless, considering adequate cash generation ability of the business, the liquidity position of the company would still remain comfortable.

**Significant receivables likely to keep the working capital intensity high** – Significant receivables keep the company's working capital intensity of operations at a high level, as reflected by the net working capital relative to the operating income of 30% (38% in FY2022) in FY2023, 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.

### Liquidity position: Adequate

The company generated positive cash flow from operations over the past few years, primarily supported by a decline in the working capital intensity of operations. Despite a likely increase in the scale of operations along with working capital intensity of operations, the company is estimated to generate positive cash flow from operations in the current fiscal. Free cash flows are also likely to remain positive in the near term. The average utilisation of fund-based working capital limits remained at a moderate level during the last 15 months, ended in January 2024. PIL had a large portfolio of cash/bank balance and liquid investments as on March 31, 2023. However, demerger of a major portion of the investment portfolio to another Group company will have a bearing on the overall liquidity buffer, which was available to PIL. However, in view of adequate cash flows from operations, limited capital expenditure and absence of long-term debt service obligations, 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 credit profile of the entity. Further erosion of the liquidity buffer may also result in ratings downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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) has approved Patton International Limited's (transferor company) proposed demerger of its plastic pipe manufacturing unit at Kodalía, West Bengal and the investment portfolio by vesting the same with Monesto Plast Products Private Limited (transferee company) and Patton Finvest Limited (transferee company), respectively, with effect from April 1, 2023.

### Key financial indicators (audited)

PIL, Standalone	FY2022	FY2023	H1 FY2024*	H1 FY2023*
Operating income	743.5	602.8	333.9	369.4
PAT	115.5	107.2	52.0	51.5
OPBDIT/OI	17.9%	20.6%	19.8%	12.9%
PAT/OI	15.5%	17.8%	15.6%	13.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.3	0.3
Total debt/OPBDIT (times)	0.6	0.3	0.4	0.7
Interest coverage (times)	39.6	106.1	56.2	45.8

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	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years				
			Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Mar 7, 2024	Apr 10, 2023	-	Mar 7, 2022	Apr 7, 2021	-
1 Fund-based – Working Capital Facilities <sup>^</sup>	Long Term	15.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	-
2 Fund-based – Working Capital Facilities <sup>#</sup>	Short Term	115.00	55.31	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-
3 Non-fund based – Working Capital Facilities	Short Term	30.00	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	-

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

<sup>#</sup> 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 <sup>^</sup>	-	-	-	15.00	[ICRA]AA- (Stable)
NA	EPC/ PCFC/ FBP/FBD/ FUBD/ PSFC <sup>#</sup>	-	-	-	115.00	[ICRA]A1+
NA	Letter of Credit	-	-	-	15.00	[ICRA]A1+
NA	Bank Guarantee	-	-	-	15.00	[ICRA]A1+

Source: Patton International Limited

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

<sup>#</sup> 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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