PG Electroplast Limited

Instrument	Amount Outstanding	Rating Action
	Rs Crore	**July 2016**
Fund based - Cash Credit	15.00	[ICRA]BB (Stable); assigned
Fund based - Working Capital Term Loan	17.00	[ICRA]BB (Stable); assigned
Non fund based - Bank guarantee	2.30	[ICRA]BB (Stable); assigned
Non fund based - Letter of Credit	15.70	[ICRA]BB (Stable); assigned

ICRA has assigned its long-term rating of [ICRA]BB (pronounced ICRA double B) [†] to Rs.50.00 crore[1] fund based and non-fund based bank facilities of PG Electroplast Ltd (PGEL). The Outlook on the long term rating is 'Stable'.

ICRA's rating favorably factors in the company's track record in Electronic manufacturing services (EMS) business, its reputed clientele and diversified product portfolio. The ratings factor in improvement in PGEL's financial profile in FY16 as evident in improved profitability, lower debt levels and better coverage indicators. PGEL's shift towards higher value added segments like molding components, automobile parts, kitchen appliances and sanitary ware etc has resulted in better operating profitability (OPM[2] increased to 7% in FY16 as compared to 5% in FY15, NPM[3] increased to 0.8% in FY16 from net loss of -1.9% in FY15) Moreover, repayment of loans and improved profits have resulted in better coverage indicators (Gearing stood at 0.70x as on March 31, 2016 as compared to 0.75x in previous year, interest coverage improved to 1.90x in FY16 from 1.17x in FY15 and DCSR improved to 1.12x from 0.75x in FY15).

The ratings are, however, constrained by PGEL's customer concentration (LG contributes 53% of the total revenue in FY16 although lower than previous years),dependence on business plans and performance of its key customers and limited control over operations given that majority of the business parameters are customer driven as is characteristic of this business. However, ICRA has noted PGEL's efforts towards growing diversification across industry segments and customers. Moreover, the ratings are constrained by the weak return indicators of the company (ROCE and RONW of 5.8% and 1.7% respectively in FY2016) given the weak performance over the last few years.
ICRA will continue to monitor developments with regard to the SEBI order over the irregularities in use of the company's IPO proceeds and the company's appeal to SAT[4] for the same and take rating action based on the developments.

Going forward, PGEL's ability to diversify its client base, improve its profitability and debt coverage indicators will be the key rating sensitivities. PGEL will need to continue its efforts to maintain lean cost structure even after expiry of tax benefits in one of its units and adapt with the rapid technology upgradation in the consumer electronics/durable space which requires continuous process alterations and improvements. Further, conclusion of the litigation against the company/shareholders can have a critical bearing on its credit profile going forward and will be a key rating sensitivity.

Company Profile
PGEL, incorporated in 2003 by Mr Pramod Gupta, is engaged in the manufacture of consumer durables which comprise mainly of Molding division: which includes parts of AC, Washing Machine, Refrigerator for LG & CMI, Automobile parts for SMR (Maruti) ,Tata, Mahindra ,Minda ,Bathroom fittings for Kohler, Jacquar etc. Tooling Division: Moulds for automobile parties, Voltas. In complete product range the company manufactures kitchen appliances like Juicer, Mixer, flask, chopper, microwave kits, plastic container, solar lamp, water purifier, set top boxes and air coolers.

[†] "For complete rating definition please refer to the ICRA website www.icra.in or any of the ICRA Rating Publications"
[1] 100 lakh = 1 crore = 10 million
[2] OPM= Operating Profit Margin
[3] NPM= Net Profit Margin
[4] SAT= Securities Appellate Tribunal

PGEL has 5 manufacturing facilities; 3 in Noida (Uttar Pradesh), 1 in Pune (Maharashtra) and 1 in Rorkee (Uttarakhand) excise free zone.

Recent results

PGEL reported a net profit of Rs 2.08 crore on an operating income (OI) of Rs 260.25 crore in FY 2016, as compared to a net loss of Rs 4.43 crore on an OI of Rs 238.73 crore in the previous year.

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