

October 23, 2017

Prabha Industries

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	2.00	[ICRA]BBB (Stable); outstanding
Fund-based – Term Loan	11.00 (previously nil)	[ICRA]BBB (Stable); assigned
Non-fund based limits – Bank Guarantee	10.00	[ICRA]A3+; outstanding
Total	23.00 (enhanced from 12.00)	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB¹ (pronounced ICRA triple B) for the Rs.11.00-crore² (previously nil) fund-based facilities of Prabha Industries (PI). ICRA has long-term rating of [ICRA]BBB and short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) outstanding on the Rs 12.00-crore existing fund and non-fund based facilities of PI. The outlook on the long-term rating is ‘Stable’.

Rationale

The assigned rating takes into consideration the improvement in the scale of operations where PI’s revenue grew from Rs 27.83 crore in FY2016 to Rs 63.55 crore in FY2017. This manifold revenue growth is on account of commencement of manufacturing of stamped parts for auto OEMs in FY2017 where previously PI was only a job worker for these products. ICRA also notes that PI is a part of Prabha group which consists of Prabha Engineers (rated at [ICRA]A3+) and Prabha Auto Products Private Limited (rated at [ICRA]BB+(Stable)/A4+), which reported a combined turnover of Rs. 529.92 crore in FY2017. These apart, the ratings continue to factor in the significant experience of the promoters in the automotive industry spanning three decades, PI’s established relationship with reputed auto OEMs and its presence in the value-added tooling segment garnering higher margins supported by an established engineering design and product development team. The ratings also take into consideration PI’s healthy margins, and cash flows supported by sizable advance from customers.

However, the ratings continue to be constrained by the sizable customer concentration with top five customers accounting for more than two-thirds of its revenues during FY2017. The ratings also take into consideration the risk associated with PI’s presence in a niche segment within which it faces competition from the OEM’s (Original Equipment Manufacturer) own tooling set up as well as from other established tool manufacturers. The ratings are also constrained by the inherent risks associated with the constitution of PI as a partnership firm, including capital withdrawals as witnessed in the past.

¹ For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Long track record of the management with significant experience in the auto ancillary industry** – Mr. Kubher is a Mechanical Engineer and has significant experience in the auto ancillary space for more than three decades, including at the Tube Investments of India Limited, Indian Bright Steel Company Limited, and the Prabha Group which is in existence for the past three decades. Apart from Prabha Group, Mr. Kubher also has interests in his family-owned regional retail stores, based in Thanjore. Mr. Vinod Kubher, son of Mr. Kubher, is the managing partner of PI and has worked in DaimlerChrysler Corporation, USA, and holds a Master's degree in Manufacturing Engineering from Wayne State University (Detroit, USA).
- **Established customer relationship with reputed auto OEMs** – PI supplies its dies primarily to auto OEMs where it has an established relationship with large and reputed OEMs including Toyota Kirloskar Motor Private Limited, (Toyota), Honda Motorcycle and Scooter India Private Limited (Honda), Hero MotoCorp Limited, Ashok Leyland Limited, etc. Repeat orders majorly from Toyota and Honda and healthy orders from other auto OEMs aids in revenue stability.
- **Significant value addition in die-making segment garners higher margins** – Die-making entails higher margins owing to the higher customization required for manufacturing each die where design and simulation are the critical stages in the manufacturing process. As raw material cost constitute only around 40-50% of the total cost of manufacturing, die making is a lucrative business garnering higher margins.
- **Healthy revenue growth and healthy margins** – Till FY2016, the firm was recognising only job-work commission as income under the stamped parts division. However, from FY2017 onwards, the company started procuring the materials and manufacturing the stamped parts, where the entire sale value is recognised as income. This change in business model, coupled with increased volume of production under the stamped parts division, has resulted in revenue growth from Rs 27.83 crore in FY2016 to Rs 63.55 crore in FY2017. Although the operating margins declined in FY2017 owing to lower margins under the stamped part segment, the margins remain healthy at around 20%, aided by strong profitability under the die-making segment. .
- **Healthy capital structure and coverage indicators** – With healthy accretion to reserves year-on-year, the capital structure is healthy with a gearing of 0.7 times as at March 31, 2017. Though it increased slightly from 0.2 times as at March 31, 2016 on account of debt-funded capital expenditure incurred towards construction of another plant in Chennai, the capital structure continues to remain comfortable. The debt coverage indicators also continue to remain healthy on account of low interest charges and debt repayment obligation commencing only from FY2019.

Credit weaknesses

- **High customer concentration risk** – PI manufactures dies and stamped parts and the revenue contribution from die-making segment is around 60% and the balance is from stamped parts segment. In the stamped parts revenue segment, PI manufactures stamped products and supplies exclusively to two subsidiaries of Toyota Kirloskar Motor Private Limited. Even in the die-making segment, PI caters majorly to three customers in a year. This has given rise to high customer concentration risk with top five customers constituting more than two-third of the revenue.
- **High competition risks** – PI specialises in sheet metal stamping dies primarily catering to the manufacture of automotive fuel tanks, front end structure and other parts of both 2-Wheelers and 4-Wheelers. Being a small-scale player in the die segment, the firm faces competition from other established tool manufacturers like Nagata India Private Limited and Godrej Tooling, a division of Godrej & Boyce Manufacturing Company Limited. In addition to these players, PI faces competition from several auto OEMs who manufactures required dies in-house. These apart, the intensity of competition in the stamped products segment is also high. Nevertheless, PI's established relationship

with large auto OEMs like Toyota Kirloskar Motor Private Limited, Honda Motorcycle and Scooter India Private Limited etc mitigates competition risk to an extent.

- **Inherent risks associated with constitution of PI as a partnership firm** – The constitution of PI as a partnership firm gives rise to risk of capital withdrawal. There have been instances of capital withdrawal noted in the previous years. However, there has not been any withdrawal in FY2017. Any withdrawals from the capital account might impact the capital structure and result in adverse gearing ratio and coverage ratios.
- **Small scale of operations** – Notwithstanding the recent revenue growth, the scale of operations of the firm remains small with a turnover of Rs. 63.55 crore in FY2017. However, ICRA derives comfort as the company is a part of Prabha group which reported a combined turnover of Rs. 529.92 crore in FY2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Auto Component Manufacturers](#)

About the company:

Prabha Industries (“PI” / “the firm”) was established in 1970 by Mr. S. Kubher as a proprietorship concern and was later reconstituted as a partnership firm. In 2005, the firm set up its manufacturing facility at Kumbalgot Industrial Area, Bangalore, to manufacture dies (also known as press tools) and sheet metal stamped auto components primarily for Two-Wheelers (2Ws) and Four-Wheelers (4Ws). The manufacturing facility, spreading across an area of 2 acres, has a capacity to manufacture on an average 250 dies per annum. Die sales is the principal business followed by manufacturing of sheet metal stamped auto components.

Prabha Industries is a part of Prabha Group which has two other entities - Prabha Engineers ([ICRA]A3+), a partnership firm engaged in truck body manufacture catering exclusively to Ashok Leyland, and Prabha Auto Products Private Limited ([ICRA]BB+/[ICRA]A4+), engaged in manufacturing of stamped parts catering to Ashok Leyland and other automobile companies. Prabha Group is promoted and owned primarily by Mr Kubher.

In FY2017 (Provisional), the firm reported a net profit of Rs. 5.2 crore on an operating income of Rs. 63.55 crore, as compared to a net profit of Rs 4.30 crore on an operating income of Rs. 27.83 crore in the previous year.

Key financial indicators

	FY2016	FY2017 (Provisional)
Operating Income (Rs. crore)	27.8	63.6
PAT (Rs. crore)	4.3	5.2
OPBDITA/ OI (%)	26.1%	19.6%
RoCE (%)	54.7%	41.7%
Total Debt/ TNW (times)	0.2	0.7
Total Debt/ OPBDITA (times)	0.3	1.1
Interest coverage (times)	33.9	20.7
NWC/ OI (%)	-12.3%	-2.5%

OI: Operating Income; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				Oct, 2017	Sep, 2017	Jul 2016	-	-
1	Overdraft	Long Term	2.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2	Term Loan	Long Term	11.00	[ICRA]BBB (Stable)	-	-	-	-
3	Bank Guarantee	Short Term	10.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Overdraft	-	-	-	2.00	[ICRA]BBB(Stable)
-	Term Loan	-	-	Jan 2025	11.00	[ICRA]BBB(Stable)
-	Bank Guarantee	-	-	-	10.00	[ICRA]A3+

Source: the company

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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.

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