

Pyrotech Electronics Private Limited

December 11, 2017

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	29.35	45.00	[ICRA]BBB- (Stable); Reaffirmed
Fund based – Term Loans	16.65	6.94	[ICRA]BBB- (Stable); Reaffirmed
Non-fund Based – Bank Guarantee	29.00	31.00	[ICRA]BBB- (Stable); Reaffirmed
Non-fund Based – Letter of Credit	-	7.00	[ICRA]BBB- (Stable); Reaffirmed
Unallocated	-	10.06	[ICRA]BBB- (Stable); Reaffirmed
Total	75.00	100.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 51.94-crore fund-based facilities (enhanced from Rs. 46.00 crore) of Pyrotech Electronics Private Limited (PEPL). ICRA has also reaffirmed a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 38.00-crore¹ non-fund based facilities (enhanced from Rs. 29.00 crore) and Rs. 10.06-crore unallocated limits of PEPL². The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation takes into account the ramp up in PEPL's operating scale led by good traction in LED drivers segment. The subsequent improvement in operating margins and the company's healthy order book (primarily in the control panels segment) have also impacted the rating. Further, the ratings continue to draw comfort from the company's established position as a leading vendor for various engineering majors like Bharat Heavy Electricals Limited (BHEL), Siemens Limited (Siemens), Alstom India Ltd. (Alstom) etc.

The rating, however, continues to be constrained by the company's long working capital cycle, as is characteristic of the panels business wherein the receivable realisation period remains long. While receivable ageing continues to improve as expected, delays in limit enhancement has kept the company's utilisation at elevated levels. PEPL's debt-coverage metrics continue to be moderate in light of moderate net profitability and growing debt levels.

Given the substantial order book, the company's ability to ramp up execution pace, sustain margin improvement and improve its debt-coverage metrics will be the key rating sensitivities. Further, any change in working capital cycle and its funding will be key rating monitorables.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that PEPL will continue to benefit from the growing revenue diversity coupled with a healthy order book. The outlook may be revised to 'Positive' in case of substantial growth in revenue and profitability along with substantial improvement in liquidity position and coverage indicators. The outlook may be revised to 'Negative' if the working capital cycle stretches as well as there is a delay in revenue booking.

Key rating drivers

Credit strengths

Growing revenue diversity with reduced customer concentration – Over the years, PEPL served as a qualified vendor for control panels for various clients and has established its track record with repeat orders for engineering majors like BHEL, Siemens, Alstom etc. However, over the last two years, the company has increased its focus on other sectors like power transmission, glass, chemicals etc. in panels and acting as a contract manufacturer for LED majors. Traction in LED business and new orders in control panels has led to a revenue and OPBDIT growth of 25% and 33% respectively in FY2017.

Strong order book position provides healthy revenue visibility – In the current year, PEPL has received a large order from the state government for the panels division. This along with increased capacity in the LED driver division has resulted in an order book of Rs. 175 crore, a large part of which is executable in Q4 FY2018.

Credit challenges

Working capital cycle remains long; improved ageing in line with expectations – PEPL's working capital intensity has been historically high amid a high 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 also linked to installation and defect liability period. The company had substantial stock pileup in September 2017 in the backdrop of a healthy order book.

Availability of enhanced limits crucial for execution ramp up – PEPL has had high dependence on working capital limits owing to the work involved and growing scale. In FY2017, in the absence of enhancements, PEPL availed long-term loans and promoters' funds to support execution. Since the orders are short tenor in nature, availing of the now enhanced limits on time will be crucial for execution. PEPL's limits have remained highly utilised over the past one year.

Moderate capital structure and coverage indicators – Over the years, PEPL's debt levels have risen, largely owing to growing working capital cycle and regular machine purchases. The company's capital structure has remained moderate with high debt levels vis-a-vis net worth and the gearing deteriorated from 1.48 times as on March 31, 2016 to 1.55 times as on March 31, 2017. Growing debt levels and modest net margins consequent to high interest outgo have resulted in moderate coverage metrics characterised by DSCR of 1.3 times and interest coverage of 2 times 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](#)

About the company:

PEPL is a part of the Pyrotech Group promoted by Mr C.P Talesara, Mr P.S Talesara, Mr V.P Rathi and Mr N.K Pande. The company manufactures control panels, electronic instruments, temperature sensors and industrial modular furniture. Its three main business segments includes control and instrumentation panels, electronic instrument panels and LED drivers. PEPL has three manufacturing units located in Udaipur, Rajasthan and also has franchisee arrangements and tie-ups with international companies dealing with related product categories.

In FY2017, the company reported a net profit of Rs. 3.8 crore on an operating income (OI) of Rs. 163.4 crore compared with a net profit of Rs. 1.5 crore on an OI of Rs. 130.5 crore in the previous year.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	130.5	163.4
PAT (Rs. crore)	1.5	3.8
OPBDIT/ OI (%)	8.8%	9.4%
RoCE (%)	8.5%	12.0%
Total Debt/ TNW (times)	1.48	1.55
Total Debt/ OPBDIT (times)	4.8	4.1
Interest Coverage (times)	1.8	2.0
NWC/ OI (%)	40%	39%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 October 2015	Date & Rating in FY2015 June 2014	
1	Cash Credit	45.00		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Term Loans	6.94	6.94	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
3	Bank Guarantee	31.00		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
4	Letter of Credit	7.00		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
5	Unallocated	10.06		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	NA	NA	NA	45.00	[ICRA]BBB- (Stable)
	Term Loans	2010	NA	2021	6.94	[ICRA]BBB- (Stable)
	Bank Guarantee	NA	NA	NA	31.00	[ICRA]BBB- (Stable)
	Letter of Credit	NA	NA	NA	7.00	[ICRA]BBB- (Stable)
	Unallocated	NA	NA	NA	10.06	[ICRA]BBB- (Stable)

Source: PEPL

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