

April 02, 2020

## Pyrotech Electronics Private Limited: Long-term rating reaffirmed; outlook revised to Negative

### Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	51.00	51.00	[ICRA]BBB reaffirmed; Outlook revised from Stable to Negative
Long-term – Fund-based – Term Loans	8.94	9.00	[ICRA]BBB reaffirmed; Outlook revised from Stable to Negative
Long-term – Non-fund Based – Bank Guarantee	36.00	36.00	[ICRA]BBB reaffirmed; Outlook revised from Stable to Negative
Long-term – Non-fund Based – Letter of Credit	7.00	7.00	[ICRA]BBB reaffirmed; Outlook revised from Stable to Negative
Long-term – Unallocated	17.00	17.00	[ICRA]BBB reaffirmed; Outlook revised from Stable to Negative
<b>Total</b>	<b>120.00</b>	<b>120.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the outlook of Pyrotech Electronics Private Limited's (PEPL) primarily takes into consideration its deteriorated performance in FY2020. The company's subdued order book has been further affected in Q4 FY2020 by the novel coronavirus (COVID-19) pandemic. Although it is too early to estimate the extent of the impact on the company going forward, the top line is likely to be negatively impacted at least in Q1 FY2021. Further, the rating continues to be constrained by PEPL's long working capital cycle, as is characteristic of the panels business wherein the receivable realisation period remains long. ICRA also notes the high retention period in the segment, wherein 10% of the overall order book amount is stuck till installation of the products. PEPL's debt coverage metrics continue to be moderate, considering its modest net profitability and growing debt levels with elevated levels of limit utilisation. The increase in short-term funds to support the growing order book in the last three years has further pushed up the debt levels. Moreover, the company has regularly undertaken long-term loans and unsecured loans from its promoters for capital expenditure, which has increased its debt levels.

However, the ratings continue to be strengthened by the extensive experience of PEPL's promoters, which has led to established relationships with its key customers such as BHEL. This enables it to receive repeat orders from the same. Further, the promoters have a track record of infusing unsecured loans when required by the company. The ratings are also strengthened by the increasing revenue diversification. The company has increased its focus on other sectors like power transmission, glass, chemicals, etc. in panels and has operated as a contract manufacturer for LED majors. Further, it has added new products into its portfolio like high-density motor control centre (MCC)s panels, e-kiosks, smart bus shelters and control panels for petrol pumps. ICRA takes comfort from PEPL's order book of Rs. 135 crore as on February 29, 2020, which provides revenue visibility.

The Negative outlook on the [ICRA]BBB rating reflects ICRA's opinion that PEPL's top line and profitability are likely to be adversely impacted in the near term due to the COVID-19 pandemic.

## Key rating drivers and their description

### Credit strength

**Well experienced and professional management** – The company's promoters have vast experience in the electricals and electronics industry. They have built strong relationships with clients such as BHEL, which enables PEPL to receive repeat orders from its customers. Further, there is a track record of infusion of unsecured loans from Group companies or by the promoters.

**Growing revenue diversity with reduced customer concentration** – In the last three years, the company has increased its focus on other sectors like power transmission, glass, chemicals, etc. in panels and operated as a contract manufacturer for LED majors. Further, it has added new products into its portfolio like high-density MCC panels, e-kiosks, smart bus shelters and control panels for petrol pumps. The company has also added new clients in different sectors, which has led to a healthy build-up of the order book, and an increase in its revenues and profitability metrics. Further, over the years, PEPL has 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, the shift to the other sectors for panel orders and traction in LED business has increased revenue diversity, thereby reducing dependence on a few clients and sectors. ICRA expects the panel division to continue to dominate the revenue stream.

**Current order book position provides revenue visibility** – In the current year, PEPL has large orders from various clients in the panels division for the new product line developed by it in the last three years. This, along with increased capacity in the LED driver division, has resulted in an order book of Rs. 135 crore as on February 29, 2020.

### Credit challenges

**Deteriorated performance in FY2020** – Owing to a slowdown in the company's order book during the fiscal and the breakout of the COVID-19 pandemic in Q4 FY2020, its top line is likely to significantly decrease. Further, the same factors are expected to impact its revenues and accruals in the coming fiscal. With sizeable repayments, management of the company's liquidity will be crucial to support repayments amid the slowdown.

**Elongated working capital cycle due to high receivable cycle** – The working capital intensity has been historically high amid 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 installation and defect liability period. Hence, significantly high receivables (145 days in FY2019) remain a key rating concern. While the payment cycle in the LED division has been satisfactory, the company's ability to manage its liquidity position will be closely monitored. However, ICRA notes that the company has not faced any bad debts in the past.

**Moderate capital structure and weak debt coverage indicators** – PEPL undertook debt-funded capital expenditure in the past and will be doing the same in FY2021. Further, the company has high working capital requirements owing to its elongated working capital cycle. As a result, it has a moderately leveraged capital structure with gearing of 1.4 times as on March 31, 2019. The company highly utilised its limits over the last one year, which has led to elevated debt levels and high interest outgo. Consequently, the coverage metrics remained weak as characterised by DSCR of 1.4 times and interest coverage of 2.7 times in the same period.

### Liquidity position: Stretched

PEPL's liquidity is **stretched**, given the high utilisation of its working capital facilities and nil cash and liquid investments as on March 31, 2019. Further, the company has sizeable repayments in the coming fiscals. Managing its liquidity amid the COVID-19 pandemic will be crucial to fund its repayments in a timely manner.

## Rating sensitivities

**Positive trigger:** ICRA could upgrade PEPL's ratings if its DSCR increases to over 1.8x on a sustainable basis. Further, improvement in its working capital cycle to support liquidity will be key to a ratings upgrade. However, an upgrade is unlikely in the near term.

**Negative trigger:** ICRA could downgrade PEPL's ratings if the company's scale and profitability decline significantly on a sustained basis. This apart, further deterioration in its working capital cycle owing to stretched receivables could result in a ratings downgrade. Also, significant weakening in performance in terms of pressure on return on investments and overall demand scenario because of the recent COVID-19 pandemic would exert pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

## 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 are control and instrumentation panels, electronic instrument panels and LED drivers. PEPL has three manufacturing units in Udaipur, Rajasthan. The company also has franchisee arrangements and tie-ups with international companies dealing with related product categories.

In FY2019, the company reported a net profit of Rs. 8.1 crore on an operating income (OI) of Rs. 247.5 crore compared with a net profit of Rs. 7.8 crore on an OI of Rs. 224.0 crore in the previous year.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	224.0	247.5
PAT (Rs. crore)	7.8	8.1
OPBDIT/OI (%)	10.7%	9.5%
RoCE (%)	17.0%	14.5%
Total Outside Liabilities/Tangible Net Worth (times)	3.3	2.6
Total Debt/OPBDIT (times)	3.2	3.4
Interest Coverage (times)	2.9	2.7
DSCR	1.7	1.4

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020	FY2019	FY2018
					2-Apr-2020	-	23-Jan-2019	11-Dec-2017
1	Fund Based – Cash Credit	Long Term	51.00	51.00	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Fund Based – Term Loan	Long Term	9.00	9.00	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Non-fund Based Bank Guarantee	Long Term	36.00	36.00	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
4	Non-fund Based Letter of Credit	Long Term	7.00	7.00	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
5	Unallocated	Long Term	17.00	17.00	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)

Amount in Rs. Crore

### 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](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	51.00	[ICRA]BBB (Negative)
NA	Term Loan	2020	NA	2026	9.00	[ICRA]BBB (Negative)
NA	Bank Guarantee	NA	NA	NA	36.00	[ICRA]BBB (Negative)
NA	Letter of Credit	NA	NA	NA	7.00	[ICRA]BBB (Negative)
NA	Unallocated	NA	NA	NA	17.00	[ICRA]BBB (Negative)

Source: PEPL

## Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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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