Pitti Engineering Limited

September 16, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	312.15 (Reduced from 350.24)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	10.50	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	115.00	CARE A2 (A Two)	Assigned
Short Term Bank Facilities	135.01 (Reduced from 137.64)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**572.66 (Rs. Five Hundred Seventy-Two Crore and Sixty-Six Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The re-affirmation in the ratings assigned to the bank facilities of Pitti Engineering Limited (PEL) continue to derive strength from the experienced promoters with long track record of operations, established business presence, reputed client base albeit concentration risk owing to the nature of the business, comfortable order book position, and stable industry growth prospects. The ratings also take cognizance of improvement in financial performance during FY21 and Q1FY22 (FY refers to period from April 1 to March 31) and successful completion of Phase 1 of the ongoing capex. The ratings are, however, constrained by leveraged capital structure, elongated operating cycle, high reliance on working capital limits, and on-going debt funded capex.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- ✓ Improvement of overall gearing to 1.25x or below, on a consistent basis
- ✓ Significant improvement in total operating income by more than 30% y-o-y while maintaining similar profitability margins
- ✓ Average utilisation of working capital limits falling below 80%, on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade

- × Further deterioration in overall gearing above 1.80x, going forward.
- × Operating cycle elongating to more than 175 days, in future.
- × Any notable decline in TOI or profitability margins, going forward.

Key Rating Strengths

Experienced promoters and long track record of operations

The promoters of PEL have been in the Stampings and Lamination (S&L) business for more than three decades. The company is headed by Mr. Sharad B Pitti, who is the Chairman and Managing Director, the business operations of the company have benefited from his long-established track record in the S&L segment and the vast industry network developed over the years. This has enabled the company to expand its size and scale of operation. The overall management and the day-to-day affairs are looked after by his son, Mr Akshay S Pitti (Vice Chairman and MD) supported by a team of experienced personnel. The promoters have been resourceful and infusing funds in the form of unsecured loans which are subordinated to bank term loans, promoters infused additional funds amounting to Rs. 15.10 crore during FY21.

Improved financial performance during FY21 & Q1FY22

The financial performance of the company improved with PEL registering a total operating income (TOI) of Rs. 537.69 crore in FY21 as against Rs. 527.49 crore in FY20 backed by healthy demand and receiving of Industrial incentives and benefits amounting to Rs. 16.54 crore in Q4FY21 under package scheme of incentives for company's facility at Aurangabad. In line with TOI, PBILDT levels also increased by 23.73% to Rs. 99.17 crore and margin improved by 325 bps to 18.44% in FY21 as against Rs. 80.15 crore and 15.90% in FY20 respectively. Furthermore, the PAT margin of the company has improved by 211 bps from 3.24% during FY20 to 5.35% during FY21 due to decrease in bank interest expenses and forex expenses. During Q1FY22, the

TOI improved to Rs. 175.84 crore in Q1FY22 as compared to Rs. 62.09 crore in Q1FY21 with PBILDT of Rs. 28.40 crore and PBILDT margin of 16.15% respectively and PAT level and margin were Rs. 7.40 crore and 4.20% respectively.

Satisfactory operational performance during FY21 and Q2FY22
The capacity utilization of the company continues to remain at satisfactory level of around 60% during FY21 (59% in FY20) and 61% during Q1FY22. The company, also, has been taking steps to optimize the operations and improve the capacity utilization of its plants. The installed capacity was increased to 39,600 MTPA for total laminations capacity during FY21 as against 36,000 MTPA during FY20. The company was able to fetch higher sales realizations because of increase in prices, product mix backed by improvement in demand.

Established business presence
PEL manufactures special purpose laminations for all types of rotating electrical machinery and has a strong demand for its products and services across various applications from multiple end user industries including Railways, Steel, Cement, Sugar, Power Generation, etc. The company has successfully expanded its presence and capabilities to service new value added businesses. The company has added dedicated manufacturing lines/units for new applications segments which include railway undercarriages, components for EV (Electric Vehicle) motors, drivetrain systems, gear cases, unique engineered product solutions for wind turbine applications, and medium and heavy fabricated machined components. PEL exports its products to 12 countries deriving a revenue of around 37% of total revenue during FY21 (40% of total revenue during FY20).

Reputed client base albeit concentration risk owing to the nature of the business
PEL is an established player for stamping and lamination segments in both domestic as well as overseas market and its clientele comprises renowned names in the industrial motor manufacturing industry such as Wabtec Corporation (WC), General Electric (GE), Siemens Limited, ABB India Limited among others from whom the company garners repeated orders. Revenue contribution form top five clients increased to 81% of the total net sales in FY21 as against 73% in FY20. However, the risk of concentration is mitigated as the company garners repeat orders from these clients.

Comfortable order book position
As of June 30, 2021, the order book position of the company stood at about Rs. 280.24 crore which provides near term revenue visibility. Besides this, PEL has a stable revenue stream of approx. Rs.50.00 crore per year up to FY26 given long term supply contract with GE India (back-to back supply agreement for the Indian Railways).

Key Rating Weaknesses
Leveraged capital structure
The capital structure of the company continues to remain leveraged owing to elevated debt levels. Capital structure as represented by overall gearing of the company deteriorated marginally to 1.45x as on March 31, 2021 as against 1.33x as on March 31, 2020 due to rise in the debt levels of the company. Nevertheless, the interest coverage ratio of the company represented by PBILDT/interest improved to 3.43x during FY21 as against 2.37x during FY20 due to increase in PBILDT levels and decrease in interest expense. The total debt/GCA of the company although improved from 7.07x in FY20 to 6.07x in FY21 continues to remain moderate in view of high debt levels.

Elongated operating cycle
PEL's nature of business and operations results in extended operating cycle of 136 days during FY21 as against 114 days during FY20. This is primarily because of elongated inventory days as the company had to maintain inventory levels based on the targeted sales for the subsequent quarter coupled with increase in raw material prices. Average inventory days also appears elongated at 121 days in FY21 (94 days in FY20) because higher steel prices during the period. Furthermore, it takes around 2-3 months for its product to be consumed and tested by the client. Hence, the collection period is on an average 3 months. Thus, the nature of business and operations results in extended operating cycle. Therefore, company's reliance of working capital borrowings also tends to remain high.

On-going debt funded capex albeit completed phase I
PEL had commenced the construction of manufacturing unit at the mega plant at Aurangabad in 2017. The mega plant at Aurangabad is proposed to be completed in two phases- Phase 1 and Phase 2. Phase 1 has been successfully completed with a total cost of Rs. 226.00 crore. PEL is eligible for receiving a re-imbursement in the form of subsidy from Government of Maharashtra for its Aurangabad plant for investment towards Phase 1 over a period of 7 years and has received Rs. 16.54 crore in the form of investment subsidy in FY21.
The company proposes to further incur a capex of around Rs.220.00 crore over the next three years towards capacity augmentation of sheet metal components and machining. The said capex (Phase II) is proposed to be funded with debt equity of 58:42. Financial closure for the same has been partly achieved. The proposed capex is likely to result in moderation of capital

structure and may impact the cash flows of the company over the medium term. Also, completion of the envisaged capex without any further time or cost overrun remains critical from rating perspective.

Foreign exchange fluctuation risk

The business operation of PEL involves significant exports (about 37% of the net sales in FY21) and some imports. This exposes the company to risk associated with volatility in foreign exchange rates which nevertheless is partially mitigated by the natural hedge on account of both import and export activities coupled with forward contracts which PEL enters to hedge its residual forex risk. The company incurred forex gain of Rs. 2.17 crore in FY21 as against a forex loss of Rs.2.64 crore in FY20.

Liquidity analysis: Adequate

The liquidity position of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. However, the company's reliance on bank borrowings is high resulting in highly utilized bank limits. Adequate liquidity is supported by above unity current ratio. The company had a cash and liquid investments to the tune of Rs.8.91 crore as on March 31, 2021. The financial closure of bank limits for the proposed capex is achieved and the company is also in the process of receiving enhancement on its existing working capital bank limits.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Rating Methodology -Manufacturing Companies

About the Company

Incorporated in September 1983, PEL is promoted by Mr Sharad B Pitti of Hyderabad, Telangana. PEL is engaged in manufacturing of electrical laminations (installed capacity of 39,600 MTPA), die-cast rotors, machined components stator and rotor assemblies, press tools, jigs and fixtures at its plants at Mahaboobnagar, Telangana and Aurangabad, Maharashtra. The end users of the products of PEL include Power, Mining, Transportation and Heavy Industrial Motors segment.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY21 (A)
Total operating income	628.75	527.49	537.69
PBILDT	92.73	80.15	99.17
PAT	23.72	17.10	28.78
Overall gearing (times)	1.34	1.33	1.45
PBILDT Interest coverage (times)	3.18	2.37	3.43

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	TL-1: Mar 2028, TL-2: Mar 2028, TL-3: Aug 2028, TL-4: Jan 2023, TL-5: Mar 2026, TL-6: Aug 2028, TL-7: Dec 2022	161.66	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	150.49	CARE BBB+; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	40.50	CARE A2
Fund-based - ST-Forward Contract	-	-	-	0.01	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	94.50	CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.50	CARE BBB+; Stable / CARE A2
Fund-based - ST-Working Capital Demand loan	-	-	-	3.00	CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.64	CARE A2
Non-fund-based - ST-Proposed non fund based limits	-	-	-	109.36	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	161.66	CARE BBB+; Stable	1)CARE BBB+; Stable (28-Jun-21)	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (19-Feb-20) 2)CARE BBB+; Positive (09-Sep-19)	1)CARE BBB+; Positive (03-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	150.49	CARE BBB+; Stable	1)CARE BBB+; Stable	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable	1)CARE BBB+; Positive

					(28-Jun-21)		(19-Feb-20) 2)CARE BBB+; Positive (09-Sep-19)	(03-Sep-18)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	40.50	CARE A2	1)CARE A2 (28-Jun-21)	1)CARE A2 (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)
5.	Fund-based - ST-Forward Contract	ST	0.01	CARE A2	1)CARE A2 (28-Jun-21)	1)CARE A2 (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)
6.	Non-fund-based - ST-Letter of credit	ST	94.50	CARE A2	1)CARE A2 (28-Jun-21)	1)CARE A2 (30-Sep-20)	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	-
7.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.50	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (28-Jun-21)	1)CARE BBB+; Stable / CARE A2 (30-Sep-20)	1)CARE BBB+; Stable / CARE A2 (19-Feb-20) 2)CARE BBB+; Positive / CARE A2 (09-Sep-19)	-
8.	Fund-based - ST-Working Capital Demand loan	ST	3.00	CARE A2	-	-	-	-
9.	Non-fund-based - ST-Credit Exposure Limit	ST	2.64	CARE A2	-	-	-	-

10.	Non-fund-based - ST-Proposed non fund based limits	ST	109.36	CARE A2	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
4.	Fund-based - ST-Forward Contract	Simple
5.	Fund-based - ST-Working Capital Demand loan	Simple
6.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
7.	Non-fund-based - ST-Credit Exposure Limit	Simple
8.	Non-fund-based - ST-Letter of credit	Simple
9.	Non-fund-based - ST-Proposed non fund based limits	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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