

## Pitti Engineering Limited

### January 17, 2022

#### Ratings

| Facilities/Instruments                 | Amount<br>(Rs. crore)            | Rating <sup>1</sup> | Rating Action   |
|--|----------------------------------|---------------------|---|
| Long Term / Short Term Bank Facilities | -                                | -                   | Reaffirmed at CARE BBB+; Stable / CARE A2<br>(Triple B Plus; Outlook: Stable / A Two) and Withdrawn |
| Long Term Bank Facilities              | -                                | -                   | Reaffirmed at CARE BBB+; Stable<br>(Triple B Plus; Outlook: Stable) and Withdrawn                   |
| Short Term Bank Facilities             | -                                | -                   | Reaffirmed at CARE A2<br>(A Two) and Withdrawn  |
| <b>Total Bank Facilities</b>           | <b>0.00</b><br><b>(Rs. Only)</b> |                     |   |

Details of instruments/facilities in Annexure-1

#### **Detailed Rationale and Key Rating Drivers**

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Stable/CARE A2' [Triple B Plus; Outlook: Stable/ A Two] assigned to the bank facilities of Pitti Engineering Limited (PEL) with immediate effect. The above action has been taken at the request of Pitti Engineering Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

#### **Detailed description of the key rating drivers**

##### **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 & H1FY22**

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 H1FY22, the TOI improved to Rs. 242.51 crore in H1FY22 with PBILDT of Rs. 35.32 crore and PAT level of Rs. 12.95 crore.

##### **Satisfactory operational performance during FY21 and H1FY22**

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**

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 from 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### ***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**

[Policy on Withdrawal of ratings](#)

[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)     | FY20 (A) | FY21 (A) | H1FY22 (UA) |
|----------------------------------|----------|----------|-------------|
| Total operating income           | 527.49   | 537.69   | 242.51      |
| PBILDT                           | 80.15    | 99.17    | 35.32       |
| PAT                              | 17.10    | 28.78    | 12.95       |
| Overall gearing (times)          | 1.33     | 1.45     | -           |
| PBILDT Interest coverage (times) | 2.37     | 3.43     | 3.07        |

A: Audited UA: Unaudited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments / Facilities

| Name of the Instrument                              | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Term Loan                           | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - LT-Cash Credit                         | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - ST-Bills discounting/ Bills purchasing | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - ST-Forward Contract                    | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - ST-Letter of credit                | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - LT/ ST-Bank Guarantees             | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - ST-Working Capital Demand loan         | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - ST-Credit Exposure Limit           | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - ST-Proposed non fund based limits  | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |

#### 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              | -                              | -      | 1)CARE BBB+; Stable (16-Sep-21)<br>2)CARE BBB+; Stable (28-Jun-21) | 1)CARE BBB+; Stable (30-Sep-20)           | 1)CARE BBB+; Stable (19-Feb-20)<br>2)CARE BBB+; Positive (09-Sep-19) | 1)CARE BBB+; Positive (03-Sep-18)         |
| 2       | Fund-based - LT-Cash Credit            | LT              | -                              | -      | 1)CARE BBB+; Stable (16-Sep-21)<br>2)CARE BBB+;                    | 1)CARE BBB+; Stable (30-Sep-20)           | 1)CARE BBB+; Stable (19-Feb-20)<br>2)CARE BBB+;                      | 1)CARE BBB+; Positive (03-Sep-18)         |

|    |   |        |   |   |  |   |  |                          |
|----|---|--------|---|---|--|---|--|--------------------------|
|    |   |        |   |   | Stable<br>(28-Jun-21)  |   | Positive<br>(09-Sep-19)  |                          |
| 3  | Non-fund-based - ST-BG/LC                           | ST     | - | - | -  | 1)Withdrawn<br>(30-Sep-20)                      | 1)CARE A2<br>(19-Feb-20)<br>2)CARE A2<br>(09-Sep-19)   | 1)CARE A2<br>(03-Sep-18) |
| 4  | Fund-based - ST-Bills discounting/ Bills purchasing | ST     | - | - | 1)CARE A2<br>(16-Sep-21)<br>2)CARE A2<br>(28-Jun-21)   | 1)CARE A2<br>(30-Sep-20)                        | 1)CARE A2<br>(19-Feb-20)<br>2)CARE A2<br>(09-Sep-19)   | 1)CARE A2<br>(03-Sep-18) |
| 5  | Fund-based - ST-Forward Contract                    | ST     | - | - | 1)CARE A2<br>(16-Sep-21)<br>2)CARE A2<br>(28-Jun-21)   | 1)CARE A2<br>(30-Sep-20)                        | 1)CARE A2<br>(19-Feb-20)<br>2)CARE A2<br>(09-Sep-19)   | 1)CARE A2<br>(03-Sep-18) |
| 6  | Non-fund-based - ST-Letter of credit                | ST     | - | - | 1)CARE A2<br>(16-Sep-21)<br>2)CARE A2<br>(28-Jun-21)   | 1)CARE A2<br>(30-Sep-20)                        | 1)CARE A2<br>(19-Feb-20)<br>2)CARE A2<br>(09-Sep-19)   | -                        |
| 7  | Non-fund-based - LT/ ST-Bank Guarantees             | LT/ST* | - | - | 1)CARE BBB+;<br>Stable /<br>CARE A2<br>(16-Sep-21)<br>2)CARE BBB+;<br>Stable /<br>CARE A2<br>(28-Jun-21) | 1)CARE BBB+; Stable /<br>CARE A2<br>(30-Sep-20) | 1)CARE BBB+;<br>Stable /<br>CARE A2<br>(19-Feb-20)<br>2)CARE BBB+;<br>Positive /<br>CARE A2<br>(09-Sep-19) | -                        |
| 8  | Fund-based - ST-Working Capital Demand loan         | ST     | - | - | 1)CARE A2<br>(16-Sep-21)   | -   | -  | -                        |
| 9  | Non-fund-based - ST-Credit Exposure Limit           | ST     | - | - | 1)CARE A2<br>(16-Sep-21)   | -   | -  | -                        |
| 10 | Non-fund-based - ST-Proposed non fund based limits  | ST     | - | - | 1)CARE A2<br>(16-Sep-21)   | -   | -  | -                        |

\* Long Term / Short Term

### 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 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 for this Company

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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