Pritika Auto Industries Limited

July 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	66.50	CARE BBB-; Stable	Assigned
Short Term Bank Facilities	7.50	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Pritika Auto Industries Limited (PAIL) factors in experienced promoters, established track record of operations with the company being one of the prominent players in machined rear axle housing and differential cases for tractors in North India, long standing relationship with Original Equipment Manufacturers (OEMs), growing scale of operations and comfortable financial risk profile. The ratings are, however, constrained by cyclical nature of the auto industry, working capital intensive nature of operations and low bargaining power along with susceptibility of profitability margins to raw material price fluctuations. Further, the ratings also take cognizance of sizeable capex in its subsidiary companies, stabilisation of which is a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the scale of operations beyond Rs 400 crore with PBILDT margin of more than 11% and increase in share of business on sustained basis

Negative factors

- Decline in total operating income below Rs 300 crore and PBILDT margin below 9%
- Any un-envisaged debt-funded capital expenditure and/or exposure to its group companies thereby leading to deterioration in its adjusted overall gearing above unity

Analytical approach: Consolidated. Financials of Pritika Engineering Components Limited (PECL; subsidiary) and Meeta Castings Limited (MCL; step-down subsidiary) considered being in the similar line of business

List of Entities Consolidated:

Sr. No.	Name of the Entities	Shareholding
1.	Pritika Engineering Components Ltd	70.15%
2.	Meeta Castings Limited	100%

Outlook: Stable

CARE Ratings believe that the entity is likely to sustain its stable operating performance due to its association with the top OEMs in the domestic market along with extensive experience of the promoters aiding in securing orders. Further, with the ongoing capex in its subsidiary and step-down subsidiary, the entity expects to increase its share of business with the existing OEMs.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and established track record of operations

The group is promoted by Mr. Raminder Singh Nibber, mechanical engineer with an experience of more than three decades in manufacturing of tractor auto components through its flagship company Pritika Industries Limited (PIL) est. in 1974. Mr. Nibber is ably supported by his son Mr. Harpreet Singh Nibber, Managing Director of the group with an experience of more than two decades in this industry. The top management is supported by qualified and professional senior management team. The promoters have built long-standing relationships with its customers over the years which has enabled it to garner repeat orders. Therefore, in 2018, the group expanded its presence by incorporating another company, PECL, engaged in the similar line of business. With the growing scale of operations, promoters are aiming to streamline its operations into product dedicated manufacturing units. The promoters added another company in FY23, MCL, with the advanced technology to manufacture tractor components which is expected to commercialise its operations in April 2024.

Growing scale of operations

The group reported Total Operating Income (TOI) of Rs 363.28 crore during FY23 (refers to period April 01 to March 31) (PY: Rs 271.49 crore), growth of ~34% on the back of uptick in the demand of tractors substantiated by the increased volumes thereby leading to improvement in capacity utilisation from 50% in FY22 to 70% in FY23. The group majorly caters to the

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

domestic OEMs and is one of the largest suppliers of axle housing crank cases and wheel hub among others in Northern India. The group is also focussing on expanding its footprints in export market which have better margins. Despite growing scale of operations, operational margin remained rangebound between 10% - 12% from past three fiscals ending FY23 and stood at 11.86% (PY: 11.16%) owing to limited bargaining power with OEMs.
Going forward, with the proposed merger of auto division of its group company, Pritika Industries Limited (PIL), which was originally set up as a machining unit for the group into PAIL along with the setting up of advanced technology unit in step-down subsidiary in addition to ongoing capacity expansion, operational performance is expected to improve, however, timely commissioning of the unit with streamlining of revenue with no major cost overrun shall remain key monitorable.

Long standing relationship with OEMs
The group has established relationship with reputed OEMs, viz., Mahindra & Mahindra, Tractor and Farm Equipment Ltd, Swaraj Engines Limited, Escorts Limited, Ashok Leyland etc. Though the sales appear to be concentrated as these OEMs contributes majority of the total sales of the company, though, the risk is mitigated considering these OEMs hold majority of the share in the domestic market and group has been able to leverage upon the long-standing relationship with these OEMs due to its design/engineering capabilities and adherence to stringent quality standards.

Comfortable financial risk profile
The capital structure of the group has remained comfortable over the years with overall gearing of 0.64x as on March 31, 2023 (PY: 0.70x as on March 31, 2022). The debt profile of the group comprises of various term loans amounting to Rs 45.26 crore pertaining to purchase of plant & machineries, vehicle and Emergency credit line guarantee scheme (ECLGS) loans along with working capital borrowings of ~Rs 50 crore. Also, PAIL has given corporate guarantee on the bank facilities of PIL amounting to Rs 23.50 crore owing to which adjusted overall gearing stood at 0.79x as on March 31, 2023.
The group is undertaking capacity expansion in both the companies i.e., PAIL and PECL cumulatively amounting to ~Rs 21 crore, of which, term loan of Rs 14 crore is already sanctioned, and the same is expected to be operational by the end of FY24. Apart from this, to set up an advanced technology unit in the same line of business, new entity, MCL is incorporated as a subsidiary of PECL. The cost of setting up of this unit is ~Rs 20 crore against which debt of Rs 12.11 crore is already tied up and expected to be commissioned by April 24.
Any cost or time overrun in the aforementioned capex along with any increase in the group exposure may deteriorate financial and operational profile of the group and thus remain key monitorable.

Key weaknesses

Low bargaining power with customers and susceptibility of margins to volatility in raw material prices along with forex risk
Iron Scrap is the key raw material used for manufacturing of automotive components. PAIL at group level sources its raw material from domestic market only. The demand for metals is cyclical, the prices of which are driven by demand and supply conditions prevalent in the market coupled with strong linkage with the global LME-driven prices which exposes the group to price risk. Though, the company has a mechanism wherein any revision in the raw material prices is reset by the OEMs based on last billing and change in prices is accommodated with a lag of one quarter.

Cyclical nature of the automotive industry
The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to the sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to Tier II and Tier III suppliers.

Working capital intensive nature of operations
Operations of the company are working capital intensive marked by an average operating cycle of around 100 days as on March 31, 2023 (PY: 110 days). Being in a highly competitive business, the average collection period remained at around 71 days (PY:76 days). Being a manufacturing company, it is required to maintain adequate inventory of material for different models for different OEMs and thus the average inventory period remained at around 82 days (PY:99 days). The company procures raw material against advance payment, apart from which, credit period of upto 45 days is given, thereby, leading to reduction in creditors period to 54 days (PY: 66 days). The working capital requirements are met largely through bank borrowings resulting in average utilization of approximately 80% of its sanctioned working capital limits. Going forward, working capital requirement may intensify considering the sizeable capex being undertaken in the group and thus remain a key monitorable.

Liquidity: Adequate

The company has adequate liquidity marked by sufficient cushion in expected gross cash accruals of Rs. 29.71 crore vis-à-vis scheduled repayment obligations of Rs.11.84 crore in FY24 and free cash and bank balance of Rs. 16.87 crore as on March 31, 2023. The company has sufficient headroom to raise debt going forward with comfortable capital structure having an overall gearing below unity. The reliance on bank limits has remained ~80% on account of working capital-intensive operations. Any cost overrun in the ongoing capex may impact the liquidity profile of the group and thus remain key monitorable.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Pritika Auto Industries is a part of Pritika Group. The group is engaged into manufacturing of Machined rear axle housing and differential cases for Tractors in India. Besides these two components, it is also producing wide variety of other components such as Brake Housings, Wheel Hubs, Hydraulic Lift Housings/Covers, Crank Cases, Cylinder Blocks, Brake Disc, Transmission cover etc and is one of the largest producers of machined casting in North India.
PAIL has manufacturing facilities situated at Derabassi and Tahliwal (Himachal Pradesh) with a total capacity exceeding 38,400 metric tonnes per annum (MTPA). The manufacturing facilities consists of mechanized foundry with both High pressure and Medium Pressure Mould lines, Induction Furnace and Cold Core Box machines.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	271.49	363.24
PBILDT	30.29	42.73
PAT	14.41	15.69
Overall gearing (times)	0.70	0.64
Interest coverage (times)	3.37	4.62

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable;

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31-03-2028	11.38	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	55.12	CARE BBB-; Stable
Non-fund-based - ST-Working Capital Limits		-	-	-	7.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	11.38	CARE BBB-; Stable				
2	Fund-based - LT-Working Capital Limits	LT	55.12	CARE BBB-; Stable				
3	Non-fund-based - ST-Working Capital Limits	ST	7.50	CARE A3				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sajan Goyal Director **CARE Ratings Limited** Phone: +91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Sachin Mathur Associate Director **CARE Ratings Limited** Phone: +91-120-4452054 E-mail: sachin.mathur@careedge.in Prachi Gupta Assistant Director **CARE Ratings Limited** E-mail: prachi.gupta@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in