Pritika Engineering Components Limited (Revised)

July 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	29.00	CARE BBB-; Stable	Assigned
Short Term Bank Facilities	3.00	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Pritika Engineering Components Limited (PECL) factors in experienced promoters with established market presence of parent, Pritika Auto industries Limited (PAIL; rated CARE BBB-; Stable/ CARE A3) being one of the prominent players in machined rear axle housing and differential cases for tractors in North India along with long-standing relationship with Original Equipment Manufacturers (OEMs).

However, the ratings are constrained by small scale of operations albeit growing, moderate financial risk profile, ongoing debt funded capex, cyclical nature of the auto industry and low bargaining power along with susceptibility of profitability margins to raw material price fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations with PBILDT margin above 12% on a sustained basis
- Improvement in capital structure with overall gearing below unity on a sustained basis

Negative factors

- Change in management or effective control of promoter group
- Significant decline in scale of operations constraining liquidity
- Time/ cost overrun pertaining to the ongoing capex in PECL and its subsidiary company, MCL thereby deteriorating financial risk profile leading to overall gearing above 1.70x
- Deterioration in business operations and financial risk profile of PAIL

Analytical approach: Consolidated factoring parent linkages with PAIL being into same line of business and having strong business & operational linkages. Financials of Meeta Castings Limited (MCL) considered as it's a wholly owned subsidiary company and is in the similar line of business.

Outlook: Stable

CARE Ratings believe that the entity is likely to sustain its growing scale of operations being backward integrated with its parent and group company, Pritika Industries Limited (PIL) which are associated with the top OEMs in the domestic market aiding in securing orders. Further, with the ongoing capex in PECL and its subsidiary company, the entity expects to increase its share of business with the existing OEMs.

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters with established market presence of parent

PECL, incorporated in 2018, is a subsidiary of PAIL which holds 70.15% shares, formed primarily as a backward integration unit. The group is engaged in manufacturing of automotive components for tractors and is one of the largest producers of machined casting in North India. PAIL, incorporated in 1980, has built long-standing relationships with OEMs over the years which has enabled it to secure orders. PECL manufacture and sells majority of its products to PIL (marketing arm) and PAIL (parent) constituting to ~98% which in turn is being supplied to the OEMs. Further, the working capital limits of PECL are backed by the corporate guarantee of PAIL.

The group is promoted by Mr. Raminder Singh Nibber, mechanical engineer carrying an experience of more than three decades in manufacturing of tractor auto components and 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 a qualified and professional senior management team.

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

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

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.

Key weaknesses

Small Scale of operations albeit growing

TOI of the company is growing YoY at a CAGR of ~50% from FY19 to FY23 (refers to period April 01 to March 31), yet the scale remained small. During FY23, company recorded growth of ~54% and stood at Rs 82.32 crore during FY23 (PY: Rs 53.61 crore) 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 in line with the growth in parent, PAIL. Despite growing scale of operations, operational margin remained rangebound between 10-12% from past three fiscals ending FY23 and stood at 12.36% (PY: 11.83%) owing to limited bargaining power with OEMs.

Going forward, with the setting up of advanced technology unit in subsidiary in addition to ongoing capacity expansion, operational performance is expected to improve, however, however, timely commissioning of the unit with streamlining of revenue with no major cost overrun shall remain key monitorable.

Project Risk

MCL has started setting up advanced technology unit for the manufacturing of tractor components at a project cost of ~Rs 20 crore, funded in the debt equity ratio of 60:40. The land has been acquired and construction is ongoing with all the necessary approvals in place. The unit is expected to commercialise its operations in April 2024.

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 company 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.

Moderate financial risk profile

The capital structure of the company has remained moderate over the years with overall gearing of 1.20x as on March 31, 2023 (PY: 1.52x as on March 31, 2022). The debt profile majorly comprises of various term loans amounting to Rs 22.44 crore pertaining to purchase of plant & machineries and Emergency credit line guarantee scheme (ECLGS) loan along with working capital borrowings of ~Rs 11 crore. The company is undertaking capex in FY24 for capacity expansion amounting to ~Rs 14 crore against which term loan of ~Rs 10 crore is already tied up. 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 may deteriorate financial and operational profile and thus remain key monitorable.

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.

Liquidity: Adequate

Liquidity of the company is adequate marked by expected GCA of Rs 6.48 crore as against repayment obligations of Rs 4.02 crore along with free cash and bank balance of Rs 5.15 crore as on March 31, 2023. The reliance on bank limits has remained high of approx. 70% on account of working capital-intensive operations. Any cost overrun in the ongoing capex may impact the liquidity profile of the company and thus remain key monitorable.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
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

PECL is engaged in the business of manufacturing of precision machined components primarily for automotive industry, especially for tractors, trucks, and other commercial vehicles, etc. Its product profile includes products like End Cover, Cover Sealed Brake, Differential Case, Cover Hydraulic Lift, Front Wheel hub, Fly Wheel Housing, Rear Axle Casings, Hydraulic Lift Covers, Brake Housing & Front Engine Supports etc. PECL has manufacturing facility situated in Hoshiarpur with a total capacity of 13,200 metric tonnes per annum (MTPA).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	32.07	53.61	82.32
PBILDT	3.16	6.34	10.17
PAT	0.35	5.49	3.15
Overall gearing (times)	1.74	1.52	1.20
Interest coverage (times)	1.66	2.89	2.80

A: Audited UA: Unaudited; 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		-	-	31-08-2028	16.97	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	12.03	CARE BBB-; Stable
Non-fund-based - ST-Working Capital Limits		-	-	-	3.00	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	16.97	CARE BBB-; Stable				
2	Fund-based - LT-Working Capital Limits	LT	12.03	CARE BBB-; Stable				
3	Non-fund-based - ST-Working Capital Limits	ST	3.00	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:

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