PTC Industries Limited

October 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	71.29	CARE BBB+; Stable	Assigned
Long-term/Short-term bank facilities	128.71	CARE BBB+; Stable/CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of PTC Industries Limited (PTC) derive strength from the experienced promoters with a long-established presence in the specialised metal casting industry. It further derives strength from PTC's diversified products portfolio and associations with reputed government and private clients.

Additionally, the ratings also take comfort from the moderate financial risk profile of the company, characterised by healthy profitability margins, a healthy net worth base, and the moderate debt coverage indicators during FY23 (FY refers to the period from April 01 to March 31) and Q1FY24 (Q1 refers to the period from April 01 to June 30).

Moreover, the ratings take cognisance of the expected receipt of funds equivalent to ₹110.97 crore from the conversion of share warrants by December 2023, which will contribute to the improved liquidity position of the company going forward.

These ratings' strengths are, however, constrained by the modest scale of operations, the exposure towards raw material price fluctuations and forex risk, and the working capital intensity in operations indicated by a high inventory holding and collection period. The ratings are also constrained by the project execution and stabilisation risk associated with the ongoing and upcoming projects involving a total outlay of close to ₹300 crore in the next two to three years.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations beyond ₹350 crore, with diversification in the customer base and the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 30% on a sustained basis.
- Improvement in the operating cycle below 120 days, thereby strengthening the liquidity position of the company on a sustained basis.

Negative factors

- Decline in the total operating income (TOI) from the existing level, with the PBILDT margin below 22% on a sustained basis.
- Elongation of the operating cycle beyond 250 days and weakening of the liquidity position.
- Deterioration in the overall gearing beyond 1.0x and total debt (TD)/gross cash accruals (GCA) beyond 6x, leading to moderation in the financial risk profile of the company on a sustained basis.
- Any cost and time overruns, resulting into higher-than-envisaged debt-funded capex.

Analytical approach

Consolidated (a wholly owned subsidiary – Aerolloy Technologies Limited (ATL) – started in February 2020, engaged in similar operations).

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') opinion that PTC will continue to benefit from the experienced promoters and scale up its operations from specialised metal casting products while maintaining healthy profitability margins.

Detailed description of the key rating drivers

Key strengths

Experienced promoters with long track record of operations

The company is managed by Sachin Agarwal, Managing Director, who has an extensive experience of more than three decades in the industry. Agarwal is a MBA by qualification and has been associated with the company since 1988. The other directors also have long-standing experience in the industry. This has helped the company in establishing itself across geographies while maintaining strong associations with reputed government and private customers, withstanding changes in industry cycles and diversifying the products profile, which has been reflected in the consistent income and healthy profitability over the years.

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

Diversified product portfolio with specialised metal castings
The company is engaged in the manufacturing of a wide range of specialised products largely used into defence machinery components, such as alloy and non-alloy steel castings, titanium castings, machined components, and fabricated parts. The specialised nature of the products and the diversified portfolio safeguard the company from the cyclicality of the industry to an extent and also reduces the risk of a slowdown in any particular segment.

Widespread geographical presence with reputed customer base, albeit exposed to concentration risk
The top five customers of the company constitute around 69% of PTC's TOI in FY23 (FY22: around 71%), thus exposing it to customer concentration risk. However, the long-term association with a reputed clientele reduces the counterparty risk to an extent. The company has a diversified industrial client base, which reduces the risk associated with any particular client or end-user segment, as it caters to different industries including aerospace, oil and gas, marine, energy, etc. During FY23, Finland, the US, and China were the largest contributing countries with more than 50% revenue generation. The geographical diversification protects the company from the adverse impact of a slowdown in a particular country. With the advent of titanium casting technology in India, PTC is focussing on many critical defence and aerospace parts while also increasing avenues for the export of these components from India.

Healthy profitability margins, albeit on a modest scale of operations
PTC reported a TOI of ₹224.61 crore in FY23, increased from ₹173.85 crore in FY20, exhibiting a compounded annual growth rate (CAGR) of 8.91%, which is coming from the improved realisation of metal casting products and the increased contribution from high-value titanium castings products. Furthermore, due to the specialised and critical nature of products and its applications across different functions of the defence sector, PTC is able to command better margins compared to other metal casting players, as it reported a PBILDT margin of 28.49% in FY23, improved from 20.49% in FY20.

PTC has an unexecuted order book of ₹118.92 crore as on September 01, 2023, to be executed in the next eight to nine months and also has orders worth ₹40-50 crore of recurring nature, which provides satisfactory revenue visibility over the near to medium term. The company reported a TOI of ₹71.51 crore in Q1FY24 with a PBILDT margin of 27.63% compared to ₹46.05 crore in the corresponding period of FY23, registering a growth of around 55% y-o-y.

Moderate financial risk profile
The financial risk profile of the company is moderate, characterised by an overall gearing of 0.58x as on March 31, 2023, improved from 1.04x as on March 31, 2020, basis the healthy net worth base of ₹305.81 crore as on March 31, 2023. The net worth increased from ₹149.93 crore as on March 31, 2020, due to accretion of profits during the year and the equity raised in the form of rights issue of ₹7.86 crore, preferential issue of ₹66.85 crore, and convertible share warrants of ₹148.03 crore (of which 25% of issue proceeds amounting to ₹37.05 crore were received in December 2022 while the remaining 75%, i.e., ₹110.97 crore will be received within 13 months of application ending in December 2023). The proceeds were largely used towards the prepayment of debt obligations and capex requirements.

The interest coverage ratio (ICR) is comfortable at 4.06x in FY23, improved from 3.13x in FY20, while the other debt coverage indicators like TD/GCA is moderate and stood at 4.01x as on March 31, 2023.

Key weaknesses
Raw material price fluctuation and forex risk
The main raw materials for steel casting are steel scrap, ferro alloys, and nickel, whose prices are inherently volatile and driven largely by global as well as local demand and supply conditions. Hence, any volatility in the prices of these materials may impact the profitability of the company. The cost of materials consumed constitute around 30-40% of the total cost of sales, followed by consumables, which constitutes around 15-16% of the total cost of sales. The relatively lower share of raw materials consumed in the cost of sales, coupled with the company's diverse supplier base, reduces the impact of raw material price fluctuations on the operating profit margins of the company. PTC also exports finished goods, which are mostly in foreign currency, which exposes the company to foreign currency fluctuation risk. However, to minimise this risk, PTC covers the forex fluctuation risk through natural hedge and also books forward contracts for its net foreign exposure. The company reported a foreign exchange fluctuation gain of ₹5.35 crore in FY23 (FY22: ₹3.28 crore).

Working capital-intensive nature of the operations
PTC has working capital-intensive nature of business operations owing to the large inventory that the company has to maintain for raw materials and for the work in progress. The inventories level remained high due to complexities and peculiarities of the product process and the requirement to supply orders in larger batches, which necessitates higher inventory holdings. The working capital cycle of the company moderated and stood at 225 days as on March 31, 2023, compared to 146 days as on March 31, 2020. The working capital cycle elongated largely on account of the reduced creditors period from 81 days in FY20 to 45 days in FY23 on account of early payments to avail cost advantage or discounts, and increase the inventory holding period to 163 days in FY23. The elongated operating cycle necessitates higher reliance on bank finance to meet the working capital requirements.

Project execution and stabilisation risk
The company is in the process of setting up a titanium ingots unit with an installed capacity of 1,500 tonne per annum (TPA) with a total project cost of ₹121 crore, financed through sanctioned debt of ₹77 crore (disbursed amount is ₹32.50 crore, however, the company does not plan to take further disbursement of term debt for the capex needs basis the healthy cash accruals and

liquidity available with the company) while the remaining financed through funds raised by the company in the form of share warrants, rights, and preferential equity shares issued during the year FY23. The company is also planning to take up enhancement in the titanium and superalloy castings capacity with a total projected outlay of around ₹150-170 crore over the next two to three years through FY26, which will be incurred out of internal accruals over the next three years. Going forward, the execution and stabilisation of the aforesaid capex without any cost and time overruns will remain critical from the credit perspective.

Liquidity: Adequate

The liquidity is marked adequate by the expected cash accruals of around ₹59.75 crore against repayment obligations of ₹11.17 crore in FY24, which is further strengthened by the buffer available in working capital limits amounting to around ₹29 crore as on August 31, 2023, out of the sanctioned limit of ₹85.40 crore. The company also has undisbursed term debt equivalent to ₹44 crore of the sanctioned amount of ₹77 crore for its capex requirements. During FY24, PTC will also receive ₹110.97 crore out of the pending amount of share warrants in December 2023, which will aid the liquidity position going forward.

Environment, social, and governance (ESG) risks

Environmental	Water conservation is a prime facet of PTC's commitment to environmental stewardship. The company has taken significant steps to optimise water usage and reduce consumption, and recycles and reuses a large proportion of water, thereby contributing to water conservation on a larger scale. PTC also emphasises on environmentally conscious construction, exemplified by the deployment of transparent fiberglass sheets and energy-efficient LED lights.
Social	The company focuses on promoting education, including special education and employment, enhancing vocational skills, especially among children, women, elderly, and the differently-abled and through livelihood enhancement projects.
Governance	PTC has an effective mix of executive directors, non-executive directors, and independent directors to maintain the Board's independence and separate the functions of governance from the day-to-day management activities. The board of directors of the company consists of 10 directors, of which five are non-rotational directors (including independent directors and a managing director) and four are rotational directors.

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
Manufacturing Companies
Steel
Non Ferrous Metal

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Castings and forgings

PTC was incorporated in 1963 and was formerly known as Precious Tools and Casting Private Limited, which was later converted into a public limited company. The company is engaged in the manufacturing of high-quality engineering components of steel and titanium castings for various critical and super-critical applications in the defence sector and medical equipment industry, among others. PTC has a wholly owned subsidiary, ATL, engaged in titanium castings manufacturing.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	182.27	224.61	71.51
PBILDT	45.42	63.99	19.76
PAT	12.81	25.82	11.28
Overall gearing (times)	1.17	0.58	Not Available
Interest coverage (times)	2.99	4.06	5.39

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based – LT-Term Loan		-	-	June 30, 2026	71.29	CARE BBB+; Stable
Fund-based – LT/ ST-Working Capital Limits		-	-	-	103.71	CARE BBB+; Stable / CARE A2
Non-fund-based – LT/ ST-BG/LC		-	-	-	25.00	CARE BBB+; Stable / CARE A2

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	71.29	CARE BBB+; Stable				
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	103.71	CARE BBB+; Stable / CARE A2				
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	25.00	CARE BBB+; Stable / CARE A2				

*Long term/Short term.

Annexure-3: Detailed explanation of the 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/ ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	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

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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.

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