P. P. Industries Private Limited

July 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.00	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	139.00	CARE BBB-; Positive / CARE A3	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of P. P. Industries Private Limited (PPIPL) factor in improvement in the operational performance of the company in FY24 (refers to the period from April 01, 2023 to March 31, 2024) as reflected by improvement in scale of operations and profitability margins which has been supported by increase in orders from existing customers. The ratings continue to derive strength from company's experienced promoters with long track record of operations, reputed clientele, comfortable financial risk profile marked by low overall gearing and satisfactory orderbook which provides medium term revenue visibility. However, the ratings are constrained on account of working capital intensive nature of operations, susceptibility of profitability margins to volatility in raw material prices and company's presence in a competitive transformer industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations with Total Operating Income (TOI) above Rs 400 crores along with sustenance in Profit Before Interest Lease Rentals, Depreciation and Taxation (PBILDT) margins above 8% on a sustained basis.
- Improvement in working capital cycle to below 100 days on a sustained basis.

Negative factors

- Income declining below Rs.150 crore and decline in PBILDT margin below 4% on a sustained basis.
- Significant increase in working capital requirement and resultant weakening of liquidity position of the company.
- Deterioration in the solvency position due to increased working capital reliance or debt funded capex with overall gearing weakening significantly to more than 1.00x and TD/GCA deteriorating to more than 7.00x.

Analytical approach: Standalone

Outlook: Positive

The outlook for PPIPL has been revised from 'Stable' to 'Positive' on account of satisfactory orderbook which provides medium term revenue visibility with expected sustenance of scale of operations and profitability margins. The Outlook may be revised to 'Stable' if the company is not able to achieve the envisaged sustenance in scale of operations and profitability margins.

Detailed description of the key rating drivers:

Key strengths

Improvement in scale of operations and profitability margins

The total Operating income of the company grew by ~67% to Rs.402.21 crores in FY24 (PY: Rs.240.88 crore) driven by increased orders from the existing customers. The profitability margins of the company also improved as reflected by PBILDT and PAT margin of 7.71% (PY: 4.99%) and 4.75% (PY: 2.65%) respectively in FY24 owing to decrease in cost of raw material Going forward, CARE expects the PBILDT margin to remain in the range of ~8%.

Comfortable financial risk profile

The overall financial risk profile of the company continued to remain comfortable characterised by comfortable overall gearing which stood at 0.39x as on March 31,2024(PY: 0.38x). Debt coverage indicators of the company stood comfortable and improved further as reflected by interest coverage ratio and total debt/GCA which stood at 7.03x (PY: 3.84x) and 2.31x (PY: 5.23x) respectively as on March 31, 2024 owing to improvement in scale of operations and profitability margins.

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

Experienced promoters with established track record of operations in transformer industry
The promoters of PPIPL have a longstanding experience of over two decades in the transformer industry along with an established track record of over two decades in the manufacturing of a wide range of power transformers. The long-standing presence has in turn led to established relationship with the customers and suppliers. The company is promoted by Mr. Mukesh Jindal (Managing Director) who has an experience of over two decades in the industry. The management is supported by a team of experienced and qualified professionals to ensure smooth operations on a day-to-day basis.

Satisfactory order book providing medium term revenue visibility
The company has an unexecuted order book of ~Rs. 313 crores as on April 30, 2024which has to be executed by the end of FY25 providing revenue visibility over the medium term. Considering the long-standing experience of promoters in the industry and thrust of government on infrastructure development, company is expected to scale up its orderbook going forward.

Reputed clientele albeit concentration risk
Over a span of more than two decades in the industry, PPIPL has developed strong associations and relations with its clients. Owing to the same, PPIPL is able to secure repeat orders from its customers. PPIPL's clientele consists of reputed public sector power transmission and distribution (T&D) entities like Punjab State Power Corporation Limited, Dakshin Haryana Bijli Vitran Nigam, West Bengal State Electricity Discom Company Limited among others along with some of the private players engaged in the industry. Sales to top 6 customers accounted for ~91% of the total sales in FY24 (PY: ~87%) which indicates customer concentration risk, however the same is mitigated to a certain extent on the back of long association of over 10 years with major customers.

Key weaknesses

Working capital intensive nature of operations
The nature of operations of the company remained working capital intensive as reflected by operating cycle of 101 days in FY24 (PY: 110 days). The same was largely owing to elongated collection period which stood at 77 days in FY24 (PY: 72 days) owing to delayed collections from respective discoms. The average inventory period of the company stood at 42 days in FY24 (PY: 61 days) which was partially funded through creditor period of 18 days (PY: 23 days) and remaining through working capital borrowings. Going forward, any elongation in the working capital cycle will be key monitorable.

Presence in a highly competitive transformer industry
The domestic transformer manufacturing industry is highly fragmented marked by presence of many players, especially for lower KV class transformers and thus remains competitive. Players also face competition by way of imports from countries such as China. This coupled with tender based procurement by majority of the customers results in pressure on pricing and margins for the industry players. However, the long track record of the entity into transformer manufacturing business and long-standing experience of promoters into the industry mitigates the risk to a certain extent.

Exposure to volatile raw material prices
The prices of the raw materials including copper, cold rolled grain oriented (CRGO) steel, transformer oil and aluminum form majority (80-85%) of the PPIPL's total raw material costs and are highly volatile in nature and guided by the international demand supply scenario due to their global linkages. This exposes PPIPL to raw material price fluctuation risk because of which profitability margins remain susceptible to any volatility in the raw material prices

Liquidity: Adequate
PPIPL's liquidity position is adequate marked by gross cash accruals of Rs.21.36 crore in FY25 against term loan repayment obligation of only Rs.0.32 crore. Further, average utilization of working capital borrowings stood moderate at 61.32% for trailing 12 months ended March 31, 2024. The company is not envisaged to incur any major capex in the near to medium term.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

P.P. Industries Private Limited (PPIPL) was initially established as a proprietorship firm in the year 1999 and later it was reconstituted into a private limited company in February 2007. Company is involved into manufacturing and distribution of power transformers. The company's manufacturing facility is based in Bhatinda, Punjab. The company caters to the demand of public sector power transmission and distribution (T&D) entities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	111.03	240.88	402.41
PBILDT	4.50	12.02	31.02
PAT	4.91	6.38	19.13
Overall gearing (times)	0.05	0.38	0.39
Interest coverage (times)	1.72	3.84	7.03

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

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review and classified the ratings as "Not Cooperating" vide their press release dated October 17, 2023, on account of their inability to carry out a review in the absence of requisite information

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB-; Positive
Non-fund-based - LT/ ST-BG/LC		-	-	-	139.00	CARE BBB-; Positive / 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (06-Jun-23)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	139.00	CARE BBB-; Positive / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (06-Jun-23)	-	-

LT: Long term; LT/ST: 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-Cash Credit	Simple
2	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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