Pritika Auto Industries Limited
September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	70.32 (Enhanced from 66.50)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	7.50	CARE A3	Reaffirmed

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), and comfortable financial risk profile. Further, the rating also factors in the improvement in company's profitability margins during FY24 (refers to the period from April 01 to March 31), driven by synergies from the merger of the machining division of Pritika Industries Limited (PIL). Additionally, the enhancement in profitability is attributed to the contribution of value-added products from PIL. The ratings are, however, constrained 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the scale of operations beyond Rs 400 crore with PBILDT (Profit before interest, lease, depreciation and tax) margin maintained above 11% and increase in share of business on sustained basis.

Negative factors

- Decline in total operating income below Rs 300 crore and in 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 same line of business and operational and business linkages. The list of group companies and subsidiaries considered for consolidated financial statements in FY24 are mentioned in annexure 6.

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 capacity enhancement in the company itself and commercialization of capex in its step-down subsidiary (MCL), 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 was promoted by Late 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. His son and the current Managing Director of the group - Mr. Harpreet Singh Nibber has an experience of more than two decades in this industry. The top management is supported by qualified and professional senior management team. They 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 has started its operations from April 2024.

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

Decline in scale of operations, however profitability improved: The group reported a dip in total operating revenue (TOI) from 362.27 crore in FY23 to Rs 342.37 crore in FY24 mainly on account of reduction in average selling price following a correction in steel prices, though sales volume slightly increased. The group majorly caters to the 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 decline in scale of operations, operational margin improved to 15.41% (PY: 11.53%) on account of synergies arising out of the merger of manufacturing unit of PIL and operational efficiencies. In addition to this, value added products of PIL had better margins which also contributed in expansion in margins. Further, PAT is also improved to 4.92% in FY24 (PY 4.33%).
Q1FY25 (refers to the period from April 01 to June 30): Company reported TOI of Rs. 88.80 Cr with PBILDT margin of 16.23%. Going forward, with the recent merger of auto division of its group company, Pritika Industries Limited (PIL) into PAIL along with the commercialization of operations in step-down subsidiary, operational performance is expected to improve.

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 around ~78%, 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 financial risk profile of the company as reflected by overall gearing of 0.77x (PY: 0.64x) and interest coverage ratio of 3.57x (PY: 4.51x), continues to remain comfortable. Further, the debt profile of the group comprises of various term loans amounting to Rs 81.63 crore pertaining to purchase of plant & machineries, vehicle and Emergency credit line guarantee scheme (ECLGS) loans along with working capital borrowings of ~Rs 67 crore. Capex was undertaken for capacity expansion has completed in FY24 and expected to generate additional revenue from FY25. This capacity enhancement is backed by orders. Further, routine nature of capex including some expansion in machining division and capex going on in PECL (expected to be commissioned in September 2024) has been projected to the tune of Rs.12 crore proposed to be funded through internal accruals.

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 131 days as on March 31, 2024 (PY: 100 days). Being in a highly competitive business, the average collection period remained at around 59 days (PY:71 days). The company is required to maintain adequate inventory of materials for different models across OEMs. During FY24, the average inventory period increased to 127 days (PY:82 days) mainly due to increase in inventory on account of merger. The company procures raw material against advance payment, apart from which, credit period of upto 90 days is given, thereby, leading to creditors period to 55 days (PY: 53 days). The working capital requirements are met largely through bank borrowings resulting in average utilization of approximately 66% of its sanctioned working capital limits for the 12-months period ended June 2024. Going forward, working capital requirement may intensify considering the sizeable capex 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. 36.28 crore vis-à-vis scheduled repayment obligations of Rs.16.32 crore in FY25 and free cash and bank balance of Rs. 5.23 crore as on March 31, 2024. 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 is moderate at approx. 66% in last 12 months ending June 2024.

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Auto Components & Equipments](#)
[Short Term Instruments](#)

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 75,000 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-Standalone (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	313.23	341.00	87.89
PBILDT	31.47	41.31	10.83
PAT	12.42	13.48	3.54
Overall gearing (times)	0.42	0.45	NA
Interest coverage (times)	4.75	3.56	4.33

A: Audited; UA: Unaudited; NA: Not Applicable; Note: 'the above results are latest financial results available'

Brief Financials-Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	362.27	342.37	88.80
PBILDT	41.77	52.76	14.42
PAT	15.69	16.85	4.47
Overall gearing (times)	0.64	0.77	NA
Interest coverage (times)	4.51	3.57	4.10

A: Audited; UA: Unaudited; NA: Not Applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork assigned the ratings to the bank facilities of Pritika Auto Industries Limited into 'Issuer not-cooperating' category vide press release dated August 08, 2023, on account of non-availability of requisite information and rating mandate from the company.

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-Term Loan		-	-	31-03-2028	10.32	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	60.00	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 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-Term Loan	LT	10.32	CARE BBB-; Stable	-	1)CARE BBB-; Stable (14-Jul-23)	-	-
2	Fund-based - LT-Working Capital Limits	LT	60.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (14-Jul-23)	-	-
3	Non-fund-based - ST-Working Capital Limits	ST	7.50	CARE A3	-	1)CARE A3 (14-Jul-23)	-	-

LT: Long term; ST: 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

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.

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Pritika Engineering Components Ltd	Proportionate	Subsidiary
2.	Meeta Castings Limited	Proportionate	Step-down subsidiary

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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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