Pritika Engineering Components Limited

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	31.88 (Enhanced from 29.00)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	3.00	CARE A3	Reaffirmed

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) factor in experienced promoters with established market presence of the 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

- Improvement 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 leading to overall gearing above 1.70x.
- Deterioration in business operations and financial risk profile of PAIL.

Analytical approach: Standalone factoring parent linkages with PAIL being into same line of business and having strong business & operational linkages.

Outlook: Stable

CARE Ratings believe that the entity is likely to sustain its growing scale of operations along with maintaining profitability margins and adequate liquidity.

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 74.60% 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 PAIL (parent) constituting to ~79% of its total sales, 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 was promoted by Late Mr. Raminder Singh Nibber, mechanical engineer carrying an experience of more than three decades in manufacturing of tractor auto components and is managed 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.

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

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.

Key weaknesses

Small Scale of operations albeit growing: TOI of the company has witnessed CAGR of ~40% from past six fiscals i.e. from FY19 to FY24 (yet the scale remained small). The reason of such growth is on account of uptick in the demand of tractors substantiated by the increased volumes as reflected in capacity utilisation improved from 40% in FY21 to 72% in FY24 in line with the growth in parent, PAIL. Despite having volumetric growth of 11% y-o-y (year-on-year), company has witnessed marginal growth of 6% in TOI in FY24 on account of decline in input price and consequent decline in selling price of products and stood at Rs. 87.17 Cr during FY24 (PY: Rs. 82.32 Cr). Further, PBILDT margin improved from 12.51% in FY23 to 13.11% in FY24 due to decline in raw material prices during FY24. Going forward, as the advanced technology unit in subsidiary has been set up in addition to ongoing capacity expansion, operational performance is expected to improve further.

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 1.17x as on March 31, 2024 (PY: 1.08x as on March 31, 2023). The debt profile majorly comprises of various term loans amounting to Rs 23.47 crore pertaining to purchase of plant & machineries and Emergency credit line guarantee scheme (ECLGS) loan along with working capital borrowings of ~Rs 10 crore. The ongoing capex of ~Rs. 18 Cr pertains to capacity expansion to be funded through term loan of Rs. 10 crore and rest through equity and internal accruals. The cost incurred till March 31, 2024, amounting to Rs. 15.66 Cr. Apart from this, to set up an advanced technology unit in the same line of business, new entity, MCL incorporated as wholly owned subsidiary of PECL. The cost of setting up of this unit was ~Rs 20 crore funded through debt of Rs.12.11 crore and rest from equity. The plant got commissioned in April 2024.

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 8.32 crore as against repayment obligations of Rs 5.37 crore along with free cash and bank balance of Rs.1.13 crore. The average working capital utilization for last 12 months stood at 59% ended in June 2024. The current ratio is above unity. Capex is going on (as mentioned above) for which debt of Rs. 10 Cr was availed (already fully utilized).

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
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

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).

Financials Standalone

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	82.32	87.17	22.16
PBILDT	10.30	11.43	3.23
PAT	3.54	3.72	1.02
Overall gearing (times)	1.08	1.17	NA
Interest coverage (times)	2.83	2.92	2.94

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

About the group

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.

Financials Consolidated

Brief Financials- (₹ 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 Engineering Components Limited into 'Issuer not-cooperating' category vide press release dated August 16, 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		-	-	31-08-2028	16.88	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	15.00	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 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	16.88	CARE BBB-; Stable	-	1)CARE BBB-; Stable (14-Jul-23)	-	-
2	Fund-based - LT-Working Capital Limits	LT	15.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (14-Jul-23)	-	-
3	Non-fund-based - ST-Working Capital Limits	ST	3.00	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

Contact us

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About us:
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