Pinnacle Industries Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	70.89	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	9.00	CARE BBB; Stable / CARE A2	Reaffirmed
Short-term bank facilities	22.06	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Pinnacle Industries Limited (PIL) continue to derive strength from vast experience of promoters in the auto ancillary industry and its established track record of over two decades, strong association with major client (Force Motors Limited [FML]) and other original equipment manufacturers (OEMs) in the commercial vehicle (CV) segment, along-with its well-diversified product portfolio. Ratings also factor in its stable scale of operation while improvement in profitability in FY24 (FY refers to April 01 to March 31), moderate capital structure and debt coverage indicators and adequate liquidity.
However, ratings continue to remain constrained by its concentrated customer base, presence in highly competitive auto ancillary industry with high bargaining power of OEMs and presence in cyclical industry. Ratings further constrained due to significant exposure of PIL in group company and its subsidiary, Pinnacle Mobility Solutions Private Limited (PMSPL), under which group has ventured in electrical vehicles manufacturing.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growth in scale of operation while sustaining profit before interest, lease, depreciation and tax (PBILDT) margin and return on capital employed (ROCE) above 16% on a sustained basis.
- Maintaining adjusted overall gearing (tangible net-worth adjusted with the investment in associates/subsidiary) to below 1.00x on a sustained basis.

Negative factors

- Major debt funded capex or higher-than-envisaged investment in associates adversely affecting cash flow and debt coverage of PIL.
- Decline in total operating income (TOI) below ₹200 crore alongside PBILDT margin lower than 10% on sustained basis.
- Deterioration in capital structure with adjusted overall gearing above 1.25x on a sustained basis.
- Current ratio below 1.00x on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook on long term bank facilities of PIL reflects CARE Ratings Limited's (CARE Ratings) expectations of PIL being benefited from its diversified product portfolio and its strong research and development capabilities with which it will sustain its moderate financial risk profile in near to medium term.

Detailed description of key rating drivers:

Key strengths

Experienced promoters and established track record of operations

Dr Sudhir Mehta, promoter and director, has an extensive experience as an investment banker and as an entrepreneur. He has extensive industry experience and also holds directorship in companies. He along with his family members oversee the operations of PIL. PIL's board of directors has eight members and are ably supported by the strong tier-2 management team in overall operations. PIL has an operational track record of over two decades and enjoys locational advantage due to its proximity to FML's plant and other major OEMs.

Diversified product offerings along with strong association with its major client i.e. FML albeit customer concentration

PIL has diversified product portfolio in three verticals including seating systems (including railway and automotive), automotive interiors/non mechanical components and Pinnacle speciality vehicle (PSV) segment. It caters non-electrical and non-mechanical components requirements of OEMs operating in CV segment. Diverse product offering established research and development

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

facility and the ability to scale-up operations aligned with requirements of OEMs, have helped PIL establishing strong association with the multiple OEMs. Under PSV segment, PIL offers modernisation and customisation of interiors of CVs such as motorhome, ambulances, vanity vans, and delivery vans among others. PIL ventured in manufacturing of railway seats in FY23 and supplied railway seats for the Vande Bharat train. It ventured in manufacturing seats and allied parts for the electric bus (E-bus) from FY24.

FML continues to remain its major customer; however, its contribution to the total net sales have declined from ~68% in FY20 to ~57% in FY24. In last one year, PIL added OEMs like Olectra Greentech Limited and JBM Electric Vehicles Private Limited among others for supply of various E-bus components which shall further diversify its customer base.

Stable scale of operations albeit improvement in profitability in FY24

PIL's TOI remained largely stable on y-o-y basis at ₹402.51 crore in FY24 as against ₹408.33 crore in FY23, despite decline in sales from PSV segment as this was offset by significant growth in CV segment. Revenue (in value terms) from PSV segment declined by ~90%, whereas for seating system it grew by ~85% in FY24 over FY23.

Raw material costs (RM) continue to remain the major component which formed ~63% of TOI in FY24 as against 73% in FY23. In FY24, PBILDT margin improved by 310 bps to 11.77% with increase in the proportion of the CV sales.

With improvement in PBILDT margin and moderate depreciation and interest cost, profit after tax (PAT) margin also improved by 203 bps to 5.39% in FY24. PIL reported gross cash accruals (GCA) of ₹33.81 crore in FY24 (FY23: ₹25 crore). Return indicators improved and remained healthy, marked by return on capital employed (ROCE) of 19.37% and return on net-worth (RONW) of 16.28% in FY24.

PIL reported TOI of ₹98.65 crore in Q1FY25 with PBILDT and PAT margin of 16.29% and 7.31%, respectively. CARE Ratings expects, PIL to grow its TOI by ~15-20% in medium term backed by continued demand from CV segment and envisaged increase in revenue from the train seating and E-Bus parts segment.

Moderate capital structure and debt coverage indicators

PIL's capital structure remained moderate despite improved marked by overall gearing of 0.56x as on March 31, 2024, as compared to 0.72x as on March 31, 2023. PIL has investment in the group company and subsidiary and considering this, its adjusted overall gearing remained moderate at 0.96x as on March 31, 2024, as compared to 1.40x as on March 31, 2023.

PIL is undertaking capacity expansion capex of ~₹55 crore at Sulawad, Madhya Pradesh, adjacent to its existing plant. The capex is proposed to be funded through debt to equity mix of ratio of 2.67:1. The project is envisaged to complete in Q1FY26. The project being capacity expansion in existing product line, moderate in size, entails low project risk, however completion of the project in envisaged time and cost parameter remains crucial.

PIL's debt coverage indicators continued to remain moderate marked by PBILDT interest coverage total debt to GCA (TD/GCA) of 3.15x and 2.34 years, respectively in FY24 as compared to 2.54x and 3.40 years, respectively in FY23.

Key weaknesses

Substantial exposure towards subsidiary and group company

PIL has investments in group company and subsidiary which is strategic to support their operations and realise the long-term returns. Total investments largely remained stable on y-o-y basis at ₹58.91 crore as on March 31, 2024, as compared to ₹57.64 crore as on March 31, 2023. Of the above, the majority (FY24: 95% and FY23:95%) of the investment is in two companies viz. Instor India Private Limited (IIPL; formerly known as Kider India Private Limited) and PMSPL.

IIPL is a manufacturer and exporter of retail fixtures and industrial solutions in India. PMSPL is engaged in manufacturing E-Bus and electric small commercial vehicle (E-SCV). PIL holds 52.12% in PMSPL as on March 31, 2024, (59.24% as on March 31, 2023) with balance stake being held by other promoters. PMSPL is undertaking a project for setting up manufacturing facilities for E-bus and E-SCV. Total project cost is ₹589 crore which is being funded through mix of private equity and bank debt. Apart from equity investment, PIL has also given the corporate guarantee to bank facilities being availed by PMSPL which is estimated to be ₹43 crore by FY25 end. Further significant increase in the investment, from PIL, which will have a bearing on its standalone risk profile, will remain the key credit monitorable.

Customer concentration along with presence in competitive automotive seating business

PIL continued to operate on a moderate scale with concentrated customer base. It has presence in the competitive automotive seating system business with major players having captive units for supply of seating systems. However, considering PIL's established position in this segment and strong business tie-ups with OEMs, threat from competition is mitigated to an extent. Raw material cost continues to remain the major component of cost for PIL and with OEMs sales being low margin business with fixed price (with revision in fixed interval) impact its profitability in case of the significant volatility in the raw material prices.

Presence in cyclical automobile industry

The performance of auto component industry is highly correlated to the performance of auto OEM and prevailing economic condition. In FY24, Indian CV industry faced hurdles due to higher channel inventory, impact of transition to BS-VI norms, a rise in vehicle cost, high interest rates and slow pace of execution of infrastructure projects due to general elections. Following muted growth in FY24, CARE Ratings expects commercial Vehicle (CV) sales volumes to register a degrowth of 3-6% in FY25 due to a slowdown in demand in both Medium and Heavy Commercial Vehicle (MHCV) and Light Commercial Vehicle (LCV) segments, and high inventory levels with dealers. However, demand is likely to pick up some pace post-Q2FY25 with the conclusion of general elections and a likely uptick in infrastructure projects post-monsoon. Replacement demand and mandatory scrapping of older government vehicles are expected to support volumes in FY25.

Liquidity: Adequate

PIL's liquidity position remained adequate marked by moderate cash accruals against low term debt repayment obligations and cushion available from the un-utilised working capital limits. PIL is expected to earn GCA of ~₹40-45 crore as against debt repayment obligation of ₹13-15 crore in near term.

Month end fund-based working capital limit utilisation for the last 12 months ended August 31, 2024, remained moderate at around 78%. PIL had cash and bank balance of ₹3.00 crore as on March 31, 2024. Cash flow from operation declined from ₹41.50 crore in FY23 to ₹34.84 crore in FY24 owing to higher debtor level near year end. Operating cycle remained largely stable at 38 days in FY24 as against 39 days in FY23. Current ratio and quick ratio remained moderate at 0.99x and 0.70x, respectively as on March 31, 2024.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components and equipments

Promoted by Dr Sudhir Mehta, Pithampur-based PIL (CIN: U50300PN1996PLC100600) was incorporated in 1996, for manufacturing automotive seating systems and auto components for CV manufacturers in its vicinity. PIL's current product profile includes automotive seating systems, moulded interiors and components and conversion, customisation and modernisation of vehicles under PSV with major focus on design, fabrication and modernisation of ambulances. PIL holds 52.12% equity stake in PMSPL as on March 31, 2024 (59.24% as on March 31, 2023).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	Q1FY25 (Prov.)
Total operating income	408.33	402.51	98.65
PBILDT	36.63	47.39	16.07
PAT	13.29	21.71	7.21
Overall gearing (times)	0.72	0.56	0.56
Interest coverage (times)	3.80	4.25	6.06

A: Audited Prov.: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3
Complexity level of 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	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	50.50	CARE BBB; Stable
Fund-based - ST-Line of Credit	-	-	-	-	2.25	CARE A2
Fund-based - ST-Working Capital Limits	-	-	-	-	16.01	CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	9.00	CARE BBB; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	1.80	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	-	2.00	CARE A2
Term Loan-Long Term	-	-	-	January 2027	20.39	CARE BBB; Stable

Annexure-2: Rating history for 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	50.50	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Sep-23)	1)CARE BBB; Positive (29-Sep-22)	1)CARE BBB; Positive (16-Feb-22)
2	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A2	-	1)CARE A2 (07-Sep-23)	1)CARE A2 (29-Sep-22)	1)CARE A2 (16-Feb-22)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	9.00	CARE BBB; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A2 (07-Sep-23)	1)CARE BBB; Positive / CARE A2 (29-Sep-22)	1)CARE BBB; Positive / CARE A2 (16-Feb-22)
4	Non-fund-based - ST-Credit Exposure Limit	ST	1.80	CARE A2	-	1)CARE A2 (07-Sep-23)	1)CARE A2 (29-Sep-22)	1)CARE A2 (16-Feb-22)
5	Fund-based - ST-Line of Credit	ST	2.25	CARE A2	-	1)CARE A2 (07-Sep-23)	1)CARE A2 (29-Sep-22)	1)CARE A2 (16-Feb-22)
6	Term Loan-Long Term	LT	20.39	CARE BBB; Stable	-	1)CARE BBB; Stable	1)CARE BBB; Positive	1)CARE BBB; Positive

						(07-Sep-23)	(29-Sep-22)	(16-Feb-22)
7	Fund-based - ST-Working Capital Limits	ST	16.01	CARE A2	-	1)CARE A2 (07-Sep-23)	1)CARE A2 (29-Sep-22)	1)CARE A2 (16-Feb-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Line of Credit	Simple
3	Fund-based - ST-Working Capital Limits	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Credit Exposure Limit	Simple
6	Non-fund-based - ST-Letter of credit	Simple
7	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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