PTC Industries Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.40 (Reduced from 71.29)	CARE BBB+ (RWD)	Placed on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	175.00 (Enhanced from 128.71)	CARE BBB+ / CARE A2 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings (CARE) has placed the ratings assigned to the bank facilities of PTC Industries Limited (PTC) on rating watch with developing implications (RWD) considering ongoing process for acquisition of 100% controlling stake of Trac Precision Solutions Limited (Target Company), United Kingdom based company, based on the receipt of necessary approval of the concerned authority of the United Kingdom under the National Security and Investment Act 2021 and fulfilment of other conditions as per the Securities Purchase Agreement (SPA) following UK Regulatory Approval executed from Rcapital Limited, Mr. Liam Marc Bevington, Mr. Kevin Andrew Mooney and Mr. Paul Brian Young (hereinafter collectively referred to as the "Sellers"). CARE shall evaluate the impact of the said acquisition on the operational and financial performance of the company and review the ratings once more clarity emerges on the same.

The ratings continue to derive strength from its 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. The ratings also continue to take comfort from PTC's comfortable financial risk profile characterised by sustained growth in scale of operations while maintaining healthy profitability margins, comfortable capital structure and debt coverage indicators. The ratings take cognisance of the receipt of funds equivalent to ₹699.99 crore from the qualified institutional placement to eligible investors received in September 2024, resulting in improved liquidity position of the company.

These ratings' strengths, however, continue to remain constrained by the modest scale of operations, 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 ~₹700 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 significant time or cost overrun and/or delay in the completion of the project in ATL impacting the consolidated financial risk profile of PTC

Analytical approach: Consolidated

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

CARE Ratings Limited (CARE Ratings) has followed the consolidated approach by considering the financials and business profile of its group company Aerolloy Technologies Limited (ATL). The consolidated approach is followed on account of this entity form part of the group and increasing importance of the entity exhibited by growing volume of business and increasing share in overall profitability of the group.

Detailed description of 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.

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 52.16% of PTC's TOI in FY24 (FY23: around 69.37%), 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 FY24, Finland, Norway, and India were the largest contributing countries with ~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

The TOI of the company increased to ₹260.75 crore in FY24, from ₹224.61 crore in FY23, exhibiting an annual growth rate of 16.09%, 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 29.39% in FY24, improved from 28.49% in FY23.

PTC has an unexecuted order book of ₹195.75 crore as on September 30, 2024, to be executed in the next eight to nine months and also has orders worth ₹50-55 crore of recurring nature, which provides satisfactory revenue visibility over the near to medium term.

Comfortable financial risk profile

The company has comfortable capital structure marked by low long-term debt equity ratio and comfortable overall gearing of 0.15 times (PY: 0.35 times) and 0.28 times (PY: 0.58 times) as on March 31, 2024. The net worth of the company has increased from Rs. 305.18 crore during FY23 to Rs. 644.69 crore in FY24. This is mainly on account of addition of Rs. 185.83 crores through preferential issue to non-promoter category, Rs. 110.97 crores against share warrants converted into equity shares and Rs. 42.22 crores profit earned during FY24. The debt-coverage indicators slightly improved as total debt/GCA and interest coverage ratio stood at 3x (PY:4.01x) and 5.03x (4.06x) respectively during FY24. Further the company recently raised funds of ~Rs. 700 crores through qualified institution placement in September 2024 resulting in improved financial risk profile of the company.

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 35-40% 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 ₹3.87 crore in FY24 (FY22: ₹5.35 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 242 days as on March 31, 2024, compared to 225 days as on March 31, 2023. The working capital cycle elongated largely on account of the reduced creditors period from 45 days in FY23 to 36 days in FY24 on account of early payments to avail cost advantage or discounts and increase the debtor holding period to 126 days in FY24 from 106 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 through its subsidiary Aerolloy Technologies Limited (ATL) is in a process of setting up a plant for manufacturing of titanium ingots (raw material) to titanium castings and superalloy castings (Finished product). The total cost of the project is ~Rs. 700 crores funded through available liquidity of ~Rs. 400 crores and debt of ~Rs. 300 crores. However, out of the total debt required of ~Rs. 300 crores, company has sanctioned debt of ~Rs. 60 crores out of which they have availed ~Rs. 50 crores. Remaining debt is yet to be tied up. The entire project is expected to be completed by March 2027 post receiving all the approvals from the concerned authority and the fully commercial operations from end to end is expected to start from Q1FY28. The annual production capacity will be ~1500 tonne annually using sponge technology and ~5000 tonne annually using Waste Technology for production of ingots. 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
Liquidity is marked adequate by expected accruals of ~Rs. 70.49 crores against repayment obligations of Rs. 1.48 crores in FY25. This repayment obligation is only related to vehicle loan as the company has paid its entire term debt obligation in PTC Industries in September 2024 out of the proceeds received from the QIP of Rs. 700 crores. The average working capital utilization level stood at 60.28% over the last 12 months ending September 2024 providing sufficient buffer. Low overall gearing of 0.28x as on March 31, 2024 provides sufficient gearing headroom to raise additional debt to meet any exigencies in future. Further, the company also has free cash & cash equivalents of close to Rs. 704.20 crores as on September 30, 2024.

Environment, social, and governance (ESG) risks

Environmental	Waste management is essential for fostering a circular economy. The company has implemented robust systems to recycle plastics, including packaging materials, electronic waste (e-waste) and hazardous waste generated within our supply chain and operations. The company operates a state-of-the-art Zero Liquid Discharge (ZLD) plant. This prevents the release of both untreated wastewater or treated water into the environment. This advanced system deploys advanced water treatment technologies, including Effluent Treatment Plants (ETPs) and Sewage Treatment Plants (STPs), to effectively remove contaminants and enable the safe reuse of the treated wastewater within our operations. The company adopts cleaner burning fuels in our energy mix. The company transitioned its casting and heat treatment furnace pipelines to use natural gas (PNG) and liquefied petroleum gas (LPG) instead of traditional diesel. This switch will result in considerable energy savings.
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. The company launched their 'Skill Development Programme' which aimed at empowering local youth by providing them with essential skills to enhance their employability and further drive the socio-economic growth of the region.
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 policies and guidelines establish a well-defined governance framework, that guides their decisions and operations.

Applicable criteria
Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch

Manufacturing Companies
Non Ferrous Metal
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Castings & 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, 2023 (A)	March 31, 2024 (A)	H1FY25(UA)
Total operating income	224.61	260.75	119.23
PBILDT	63.99	76.63	29.17
PAT	25.82	42.22	22.20
Overall gearing (times)	0.58	0.28	0.08
Interest coverage (times)	4.06	5.03	4.42

A: Audited Note: UA: Unaudited. 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

CareEdge RATINGS

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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	June 30, 2026	7.40	CARE BBB+ (RWD)
Fund-based - LT/ ST-Working Capital Limits		-	-	-	125.00	CARE BBB+ / CARE A2 (RWD)
Non-fund-based - LT/ ST-BG/LC		-	-	-	50.00	CARE BBB+ / CARE A2 (RWD)

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-Term Loan	LT	7.40	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (20-Oct-23)	-	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	125.00	CARE BBB+ / CARE A2 (RWD)	-	1)CARE BBB+; Stable / CARE A2 (20-Oct-23)	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE BBB+ / CARE A2 (RWD)	-	1)CARE BBB+; Stable / CARE A2 (20-Oct-23)	-	-

LT: Long 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-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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Aerolloy Technologies Limited	Full	Complete business of Titanium manufacturing is done in this company

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.

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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