PROMAC ENGINEERING INDUSTRIES LIMITED

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank facilities	52.20	CARE BBB-; Stable	Assigned
Short Term Bank Facilities	10.00	CARE A3	Assigned
Long Term / Short Term Bank Facilities	87.80	CARE BBB-; Stable/CARE A3	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Promac Engineering Industries Limited (PEIL) derives strength from its established track record of operations in the engineering industry and its healthy orderbook position from reputed private players yielding good revenue visibility in the near to medium term and low counterparty credit risk.

The ratings also factor PEIL's moderate profitability margin, comfortable financial risk profile, moderate debt coverage indicators and adequate liquidity.

The ratings, however, remain constrained on account of PEIL's moderate scale of operations and high working capital intensity due to elongated collection period. The rating also factors in risk associated with volatility of raw material prices and Forex.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in total operating income (TOI) above Rs.300 crore while maintaining PBILDT margin at prevailing levels on a sustained basis
- Improvement in Gross current asset (GCA) days below 150 days on sustained basis

Negative factors

- Significant decline in scale of operations below Rs.125 crore and PBILDT below 8%
- Higher than envisaged borrowings resulting in deterioration of overall gearing to above 1.00x.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that PEIL shall be able to sustain its credit risk profile on account of its experienced promoters, moderate revenue visibility and comfortable financial risk profile.

Detailed description of key rating drivers:

Key strengths

Healthy orderbook from reputed clientele yielding good revenue visibility and low counterparty credit risk

As on November 27, 2024, PEIL had an orderbook of ₹531.80 crore, for engineering, manufacturing, supply of cement plant machinery, material handling equipment for power plant, supply of spare parts and other process plant machinery on turnkey basis. The orderbook is to be executed over next 12-24 months and is around 3.50 times of FY24's (FY refers to the period April 01 to March 31) TOI, yielding good revenue visibility in the medium term.

Moreover, majority of the orderbook is from reputed clientele like Bharat Heavy Electricals Limited, Asian Paints Limited, NTPC Limited, National Aluminium Company Limited (NALCO) and J K Cement Limited, translating into low counterparty credit risk.

Established track record of PEIL's operations

Incorporated in 1972, PEIL has a track record of more than five decades in the engineering industry. The company has successfully executed more than 50 Cement Projects, 10 Power Projects, 9 Sponge Iron Projects, 3 Mineral Processing Projects and several other spares and equipment supplies across 4 Continents in 25 Countries. PEIL has technical collaboration with FAMAK S.A. in Poland and Tahiheiyo Engineering Corporation (TEC) in Japan for enhancing its competitive advantage in securing contracts and ensuring seamless execution of projects. PEIL's operations are managed by Mr. Jayaram S. Reddy, Managing director, who has a vast experience of more than three decades of experience in the industry and is supported by experienced Board of Directors and second tier management team.

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

Comfortable financial risk profile coupled with moderate debt coverage indicators

PEIL maintains a conservative approach to debt, with minimal reliance on bank borrowings for working capital needs. This results in a comfortable capital structure, evidenced by an overall gearing ratio of 0.23x (previous year-end: 0.27x) and a total outside liabilities to tangible net worth (TOL/TNW) ratio of 0.90x (previous year-end: 0.93x) as of March 31, 2024.

The debt coverage metrics remained moderate marked by interest coverage ratio of 2.76x during FY24 (FY23: 2.23x) and total debt/ GCA at 2.78x as on March 31, 2024 (FY23: 3.82x).

Moderate profitability, which is vulnerable to volatility of raw material prices and exchange rate fluctuations

PEIL's PBILDT margin varies and is dependent on the type of projects executed and billed within a given year, resulting in a range of 10.90% to 12.20% during last four years ending FY24. In FY24, PEIL reported a PBILDT margin of 12.13%, which was 428 basis points lower year-on-year due to higher raw material costs and a higher base year. In 7MFY25 (Provisional), PEIL reported PBILDT and PAT margin of 14.32% and 4.98% respectively. Going forward, Care Ratings expects the company's PBILDT margin to remain in range of 12.00%-14.00%.

Although a significant portion of PEIL's contracts are fixed-price, the prices of steel and castings, its primary raw materials, have shown significant volatility and are dependent on demand-supply dynamics. Consequently, PEIL's profitability remains vulnerable to adverse fluctuations in raw material prices. This risk is partially mitigated by back-to-back supply arrangements for materials. Additionally, with the growing share of export orders, the company is also exposed to exchange rate fluctuations. To manage this exposure, PEIL enters into forward contracts, aligning the hedging strategy with the project's duration and payment milestones as stipulated in the contract terms.

Key weaknesses

Moderate; albeit growing scale of operations

PEIL had moderate scale of operations in range of ~₹117-157 crores in past five years trailing FY24. PEIL's TOI grew by 23.90% y-o-y to ₹153.67 crore in FY24 (PY: ₹124.64 crore), owing to execution of higher orders. Further, in 7MFY25 (Provisional), the company has reported TOI of around ₹83 crore and is expected to achieve TOI of ~₹200 crore in FY25.

High working capital intensity

The engineering segment is inherently working capital intensive primarily due to funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities. Furthermore, skewness of billing cycle towards Q4FY24 and low bargaining power, has led to significant increase in receivables as on FY24-end. As a result, PEILs Gross current asset (GCA) days and receivables days elongated to 427 days (PY: 524 days) and 305 days (PY: 430 days) respectively as on March 31, 2024

However, implementation of clearing amount due to MSMEs within 45 days has led to a reduction in receivables as on November 30, 2024.

Liquidity: Adequate

PEIL's liquidity position remains adequate marked by sufficient cushion in its gross cash accruals vis-à-vis its debt repayment obligation, moderate utilisation of working capital limits and free cash and bank balance of ₹0.66 crore as of March 31, 2024, apart from lien marked fixed deposits amounting of ₹7.99 crore as of March 31, 2024. The average utilisation of fund-based and non-fund-based limits remained moderate at 75% respectively during the trailing 12-month period ending in October 2024.

Cash flow from operations remained positive at ₹24.98 crore during FY24. Furthermore, gross cash accruals is expected at around ₹14 crore - ₹27 crore during the projected period, as against debt repayment obligation of ₹1.90 crore - ₹5.50 crore.

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
Financial Ratios – Non financial Sector
Construction
Manufacturing Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Incorporated in 1972, Karnataka-based Promac Engineering Industries Limited (PEIL), is engaged in the design, engineering and manufacture of engineering products and equipment and setting up cement plants, power plants and other process plants on EPC/turnkey basis within India and abroad.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	October 31, 2024 (UA)
Total operating income	124.64	153.67	82.97
PBILDT	20.45	18.63	11.85
PAT	6.25	8.01	4.12
Overall gearing (times)	0.27	0.23	0.30
Interest coverage (times)	2.23	2.76	2.46

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork has put the rating assigned to bank facilities of PEIL under issuer non-cooperation category considering Brickwork's inability to carry out a rating exercise in the absence of the requisite information from the company per the press release dated May 13, 2024.

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		-	-	-	11.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	30-09-2030	41.20	CARE BBB-; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	18.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	69.80	CARE BBB-; Stable / CARE A3
Non-fund-based - ST- BG/LC		-	-	-	10.00	CARE A3

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	11.00	CARE BBB-; Stable	1)CARE BBB-; Stable (13-Nov-24)	-	-	-
2	Fund-based - LT-Term Loan	LT	41.20	CARE BBB-; Stable	1)CARE BBB-; Stable (13-Nov-24)	-	-	-
3	Fund-based - LT/ ST-Cash Credit	LT/ST	18.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (13-Nov-24)	-	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	69.80	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (13-Nov-24)	-	-	-
5	Non-fund-based - ST- BG/LC	ST	10.00	CARE A3	1) CARE A3 (13-Nov-24)	-	-	-

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 - LT- Term Loan	Simple
3	Fund-based - LT/ ST-Cash Credit	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST- BG/LC	Simple

Annexure-5: Lender details

To view the 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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in Ujjwal Manish Patel Associate Director **CARE Ratings Limited** Phone: 079-40265649 E-mail: ujjwal.patel@careedge.in Ashutosh Sharma Analyst **CARE Ratings Limited** E-mail: Ashutosh.sharma@careedge.in

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.

For detailed Rationale Report and subscription information, please visit www.careedge.in