Pitti Engineering Limited
February 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	253.58	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**
Short-term Bank Facilities	149.50	**CARE A2 (A Two)**	**Reaffirmed**
Long/Short-term Bank Facilities	10.50	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Revised from CARE BBB+; Positive/CARE A2 (Triple B Plus; Outlook: Positive/A Two)**
Total	**413.58 (Rs. Four Hundred and Thirteen crore and Fifty Eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pitti Engineering Limited (PEL) continue to draw strength from the experienced promoters and management team, established track record in the stampings & lamination industry, reputed client base, presence of long-term supply agreement with General Electric (GE), moderate order book position and moderate industry prospects. The ratings also take into account improving operational performance resulting in improvement in Total Operating Income (TOI) and Profit After Tax (PAT) margins during FY19 (refers to the period April 1 to March 31). The ratings are, however, constrained by the leveraged capital structure despite improvement as on March 31, 2019, concentrated revenue profile although diversification of the client base during the last three years, risk associated with volatility in raw material costs and elongated operating cycle with continuing high dependence on working capital borrowings. The ratings also take into account proposed debt funded capex and decline in total operating income and PAT levels during 9MFY20 vis-à-vis 9MFY19.

Rating Sensitivities

Positive Factors

- Increase in total operating income by 20% on a sustained basis with improvement in PBILDT margin to 18% during projected period.
- Improvement of overall gearing to 1.00x and below during projected period.

Negative Factors

- Deterioration in overall gearing above 1.70x.

Outlook: Stable

The revision in the outlook from ‘Positive’ to ‘Stable’ is on account of the proposed large debt funded capex which is likely to result in moderation of capital structure and impact the cash flows of the company over the medium term.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: The promoters of PEL have been in the Stampings and Lamination (S&L) industry since more than three decades. The company is headed by Mr. Sharad B. Pitti, who is the Chairman and Managing Director, and the business operations of the company have benefited from his long established track record in the S&L segment and the vast industry network developed over the years. The overall management and the day-to-day affairs are looked after by his son, Mr Akshay S. Pitti (Vice Chairman and MD) supported by a team of experienced personnel.

Reputed client portfolio: PEL is an established player for stamping and lamination segments in both domestic as well as overseas market and its clientele comprises renowned names in the industrial motor manufacturing industry such as General Electric (GE), Siemens Limited, ABB India Limited, Chittaranjan Locomotive Works, Indian Coach Factory among others from whom the company garners repeated orders.

Moderate order book position: As on December 2019, the order book position of the company stood at about Rs.600 crore which provides near term revenue visibility. Besides this, PEL has a stable revenue stream of approx. Rs.50.00 crore per year for the next few years given long term supply contract with GE India (back-to back supply agreement for the Indian Railways).

Improvement in operational and financial performance in FY19: The capacity utilization of the Company, improved substantially from ~54% during FY18 to ~70% during FY19 on account of stabilization of operations at Aurangabad and

Hyderabad units and continues to remain at a moderate level. The volume sales of its main product segment - stampings, increased significantly from 18,838 MT in FY18 to 25,427 MT in FY19 on account of higher demand.

The financial performance of the company also improved significantly in FY19 with PEL registering a y-o-y growth of 64.82% in total operating income during FY19 (to Rs.628.75 crore) at the back of strong domestic and export demand, supported by commencement and stabilization of operations of its new unit at Hyderabad and Aurangabad. PBILDT margin of the company remained stable at 14.75% during FY19 (14.82% during FY18). The PAT margin of the company, however, improved from 2.96% during FY18 to 3.77% during FY19.

Further, during 9MFY20, the total operating income of the company declined to Rs.415.57 crore from Rs.471.77 crore during 9MFY19 registering y-o-y decline of ~12%. The decline in total operating income of the company is primarily on account of decline in steel prices in market which has led to reduction in the prices of its final products for the company, change in inventory policy of one of the major clients and lower demand in the market. PBILDT and PAT levels of the company stood at Rs.63.40 crore and Rs.15.56 crore respectively during 9MFY20 (as against PBILDT and PAT levels of Rs.70.46 crore and Rs.17.07 crore during 9MFY19).

Moderate Industry Prospects: Stampings & Laminations are at the core of Electrical and Capital Goods industries and the infrastructure build-up of Power Plants, Locomotives, Mining, wind & hydel power generation electric motors and allied electrical products like transformers, stabilizers, various motors, generators, material handling equipments, etc. PEL being placed as one of the largest players in the industrial lamination industry in India, the future prospects of growth are directly linked to growth of end-use industry i.e. power, mining, railways and engineering industry in general. With the government focusing on the development of the core sectors, PEL is expected to benefit from the same.

Key Rating Weaknesses

Concentrated revenue profile: PEL has high dependence on its major clients which has resulted in concentration of revenue profile. Although, it has diversified the client base with addition of several renowned clients; the contribution of revenue from top five clients continues to remain high, with GE being the top contributor during FY19. However, the total contribution from General Electric (GE) pertains to orders from various subsidiaries of GE operating in different business verticals located in different locations. During FY19, around 48% of total revenue is generated from GE.

Leveraged capital structure albeit improvement: The capital structure of the company continues to remain leveraged owing to high debt levels on account of recently completed debt funded capex despite improvement. The overall gearing of the company has improved from 1.64x as on March 31, 2018 to 1.34x as on March 31, 2019 on account of regular repayment of outstanding debt and plough back of profits to reserves. The total debt to GCA of the company has also improved from 8.48x during FY18 to 4.88x during FY19 on account of lower debt levels and improvement in GCA levels.

Risk associated with volatility in raw material prices: The raw material cost is the major cost component with electrical grade steel accounting for about 80% of the total raw material consumption cost during FY19. Earlier a major portion of the raw material was imported with imports constituting an average 20% of the raw material consumption cost. However, the same reduced in FY19 with the exporters setting up manufacturing unit in India. While the same has reduced the lead time associated with supply, the profitability risk associated with adverse movement of prices prevails.

Extended operating cycle with high dependence on working capital borrowings: PEL's nature of business and operations results in extended operating cycle (94 days in FY19, although improved from 125 days in FY18). PEL has been relying heavily on the working capital borrowings. The average working capital utilization was high at ~98% for the 6 months ended in January 31, 2020.

Proposed debt funded capex albeit eligible for investment promotion subsidy: The company proposes to incur capex of around Rs.190.00 crore during next 36 months to increase the installed capacity of sheet metal components and machining from current capacity 36,000 MTPA and 247,600 hours to 46,000 MTPA and 405,600 hours respectively. The said capex is proposed to be funded with debt equity of 70:30. Financial closure for the same is pending. The enhancement in capacity is expected to increase the capabilities and market reach of the company and enhance in-house manufacturing of bought out components and thereby optimize the supply chain and increase the operating margins of the company.

Further, as per the management, the Govt. of Maharashtra has awarded "Mega Project" status to Aurangabad facility. Therefore, the company is eligible for investment promotion subsidy equivalent to 100% of investments made within a period of 5 years from the date of investment of land or to the extent of 100% of SGST payable by the project in respect of sale of finished goods eligible for incentives with in a period of 7 years, whichever is lower. Further, the company is also eligible to receive capital subsidy of Rs.29.21 crore over a period of 7 years from State Govt. of Telangana for Hyderabad project.

The proposed capex is likely to result in moderation of capital structure and impact the cash flows of the company over the medium term.

Prospects: The prospect in medium to long term period will depend upon the ability of the company to continue to expand the scale of operation along with diversification of the client portfolio and management of input price volatility. Further, the ability of the company to complete the capex without time and cost overrun and manage its working capital requirements efficiently will also be critical.

Liquidity: Adequate

The liquidity position of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. However, the company's reliance on bank borrowings is high resulting in highly utilized bank limits. The company has sought enhancement in bank lines, supported by above unity current ratio. The company had a cash and liquid investments to the tune of Rs.3.26 crore as on March 31, 2019. The financial closure of bank limits for the proposed capex is pending.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in September 1983, PEL is promoted by Mr Sharad B Pitti of Hyderabad, Telangana. PEL is engaged in manufacturing of electrical laminations (installed capacity of 36,000 MTPA), die-cast rotors, machined components stator and rotor assemblies, press tools, jigs and fixtures at its plants at Mahaboobnagar, Telangana and Aurangabad, Maharashtra. The end users of the products of PEL include Power, Mining, Transportation and Heavy Industrial Motors segment.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	381.48	628.75
PBILDT	56.52	92.73
PAT	11.28	23.72
Overall gearing (times)	1.64	1.34
Interest coverage (times)	2.45	3.18

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2022	64.08	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	189.50	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	58.36	CARE A2
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	30.50	CARE A2
Fund-based - ST-Forward Contract	-	-	-	2.64	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	58.00	CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.50	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	64.08	CARE BBB+; Stable	1)CARE BBB+; Positive (09-Sep-19)	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Stable (13-Sep-17)	1)CARE BBB+ (26-Aug-16) 2)CARE BBB+ (05-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	189.50	CARE BBB+; Stable	1)CARE BBB+; Positive (09-Sep-19)	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Stable (13-Sep-17)	1)CARE BBB+ (26-Aug-16) 2)CARE BBB+ (05-Aug-16)
3.	Non-fund-based - ST-BG/LC	ST	58.36	CARE A2	1)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)	1)CARE A2 (13-Sep-17)	1)CARE A2 (26-Aug-16) 2)CARE A2 (05-Aug-16)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (05-Aug-16)
5.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (05-Aug-16)
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	30.50	CARE A2	1)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)	1)CARE A2 (13-Sep-17)	1)CARE A2 (26-Aug-16) 2)CARE A2 (05-Aug-16)
7.	Fund-based - ST-Forward Contract	ST	2.64	CARE A2	1)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)	1)CARE A2 (13-Sep-17)	1)CARE A2 (26-Aug-16)
8.	Non-fund-based - ST-Letter of credit	ST	58.00	CARE A2	1)CARE A2 (09-Sep-19)	-	-	-
9.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.50	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Positive / CARE A2 (09-Sep-19)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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