

**Pitti Engineering Limited
(erstwhile Pitti Laminations Ltd)**

September 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	191.85 (enhanced from 169.53)	CARE BBB+; Positive [Triple B Plus; Outlook: Positive]	Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable]
Short-term Bank Facilities	166.14 (enhanced from 151.64)	CARE A2 [A Two]	Reaffirmed
Total	357.99 (Rupees Three Hundred Fifty Seven crore and Ninety Nine 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) draw strength from the experienced promoters and management team, established track record in the stampings & lamination industry, reputed client base, long-term supply agreement with General Electric (GE), healthy order book position and moderate operational performance. The ratings also take into account timely completion of the expansion capex with commencement of new Aurangabad plant operations during Q4FY18 and improvement in total operating income and profitability during FY18 (refers to the period April 1 to March 31) and Q1FY19. The ratings are, however, constrained by the weakening of capital structure and debt coverage parameters with high debt level, concentrated revenue profile despite diversification of the client base during the last three years, extended operating cycle with high inventory holding requirement and associated price fluctuation risk, perennial high dependence on working capital borrowings vis-à-vis the scale of operation and relatively low return ratios. The ability of the company to continue to diversify the client base, derive benefit from the completed capex with subsequent improvement in profit margins & financial position and optimize the inventory levels and working capital borrowings are the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook reflects the completion of capex and expected benefit from the same, which along with value added composite product offering is expected to improve the scale of operation, profitability and other key financial parameters.

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 30 years. 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.

Reputed client portfolio: PEL is an established player for stamping and lamination segments in domestic & exports market and the clientele comprises renowned names in the industrial motor manufacturing industry such as General Electric (GE), Siemens Limited, Gamesa and Emerson Electric among others. Further, the company has been adding globally renowned clientele to its portfolio over the last three years which has enabled it to diversify the client base to a certain extent.

Healthy order book position: The order book position of the company stood at about Rs.452 crore to which provides near term revenue visibility. Besides this, PEL has a stable revenue stream of approx. Rs.70.0 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) and Alstom (for electric locomotive segment).

Successful completion of major capex: PEL had undertaken a expansion/modernization capex aggregating Rs.135 crore which entailed shifting of company's Pune operations to a new own manufacturing unit at Aurangabad and setting up a new unit in Hyderabad to cater to machining of large metal components. The said capex was successfully completed within the time and cost envisaged with commencement of operation of the new Hyderabad and units during Q2FY18

and Q4FY18 respectively. The company has funded the capex through term loans amounting about Rs.79.7 crore and balance in the form of unsecured loans and equity/share warrants.

Improvement in financial performance during FY18 & Q1FY19: PEL registered a substantial y-o-y growth of 32.9% in total operating income during FY18 (to Rs.381.48 crore) majorly led by the company expanding its presence in the machining segment during the year. In line with increased revenue, PBILDT level and margin improved significantly by 63.7% and 279 bps (to 14.84%) respectively in FY18. The margins, however, are relatively on the lower side considering the specialized nature of work and customized offerings to the capital goods players. The company has recently stepped up its value added product offering which has resulted in improvement in the PBILDT margins from 12.20% in FY15 to 14.76% in Q1FY19. During Q1FY19, PEL registered total operating income and PBILDT of Rs.131 crore and Rs.19.3 crore reflecting a y-o-y growth of about 31.2% and 50.0% respectively over Q1FY18. The continued improvement in the profitability with benefit accruing from the completed capex remains important from credit perspective.

Key Rating Weaknesses

Weakened capital structure: The total debt has witnessed an increasing trend during the last 2-3 years. Along with high working capital borrowings, the debt availed for funding the capex has resulted in weakening of the capital structure and moderation in debt coverage parameters. The same is expected to improve, going forward, with accruals generated from the completed capex.

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 remains high (61% in FY18 vis-à-vis 70% in FY16). Further, revenue from General Electric (Global and/or Indian vertical) continues to dominate the revenue. While the concentration is due to customized product development for the capital good players, the associated inventory levels to be maintained and time lag in off-take as well as receivables results in a stretch on the working capital position. Furthermore, although the contracts have price escalation mechanism, the ability to pass on increased prices remains tight due to the high dependence on the said clients.

Risk associated with volatility in raw material prices: The raw material cost is the major cost component with electrical grade steel accounting for about 84% of the total raw material consumption cost during FY18. 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 to 3% in FY18 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 operates in a working capital intensive industry marked by high inventory level as the company has to stock the raw material based on the business forecast provided by the clients. This apart, time-lag in product off-take and lead time associated with supplying the composite products also results in high finished goods inventory. Further, since the company provides its components as an Original Equipment Manufacturer (OEM) to the final manufacturer, it takes around 2-3 months for its product to be consumed and tested by the client. Hence, the collection period is on an average 3 months. Thus, the nature of business and operations results in extended operating cycle (125 days in FY18, although improved from 171 days in FY17). PEL has been relying heavily on the working capital borrowings to fund the net working capital and the borrowings have been on the higher side vis-à-vis the scale of operation.

Analytical approach: Standalone financials of PEL have been considered for analysis.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[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.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	286.95	381.48
PBILDT	34.59	56.62
PAT	4.31	11.28
Overall gearing (times)	1.30	1.64
Interest coverage (times)	2.26	2.44

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	June 2022	61.85	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE BBB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	122.50	CARE A2
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	41.00	CARE A2
Fund-based - ST-Forward Contract	-	-	-	2.64	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	61.85	CARE BBB+; Positive	-	1)CARE BBB+; Stable (13-Sep-17)	1)CARE BBB+ (26-Aug-16) 2)CARE BBB+ (05-Aug-16)	1)CARE A- (08-Jun-15)
2.	Fund-based - LT-Cash Credit	LT	130.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (13-Sep-17)	1)CARE BBB+ (26-Aug-16) 2)CARE BBB+ (05-Aug-16)	1)CARE A- (08-Jun-15)
3.	Non-fund-based - ST-BG/LC	ST	122.50	CARE A2	-	1)CARE A2 (13-Sep-17)	1)CARE A2 (26-Aug-16) 2)CARE A2 (05-Aug-16)	1)CARE A2+ (08-Jun-15)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	1)Withdrawn (05-Aug-16)	1)CARE A2+ (08-Jun-15)
5.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (05-Aug-16)	1)CARE A2+ (08-Jun-15)
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	41.00	CARE A2	-	1)CARE A2 (13-Sep-17)	1)CARE A2 (26-Aug-16) 2)CARE A2 (05-Aug-16)	1)CARE A2+ (08-Jun-15)
7.	Fund-based - ST-Forward Contract	ST	2.64	CARE A2	-	1)CARE A2 (13-Sep-17)	1)CARE A2 (26-Aug-16)	-

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