

**Pitti Engineering Limited**

September 30, 2020

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	355.24 (Enhanced from 253.58)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	10.50	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)	Reaffirmed
Short Term Bank Facilities	132.64 (Enhanced from 91.14)	CARE A2 (A Two)	Reaffirmed
Short Term Bank Facilities	0.00		Withdrawn
<b>Total Facilities</b>	<b>498.38</b> <b>(Rs. Four Hundred Ninety- Eight Crore and Thirty- Eight Lakhs Only)</b>		

*Details of 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), comfortable order book position, adequate liquidity position and stable industry growth prospects. The ratings are, however, constrained by leveraged capital structure, concentrated revenue profile and elongated operating cycle with high dependence on working capital bank borrowings. The ratings also take cognizance of subdued operational and financial performance during FY20 (refers to the period April 1 to March 31) as well as Q1FY21 and the proposed debt funded capex, pending financial closure.

**Rating Sensitivities**
**Positive Factors**

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

**Negative Factors**

- ✗ Deterioration in overall gearing above 1.80x.
- ✗ Operating cycle elongating to more than 175 days in future.

**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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

as Wabtec Corporation (WC), General Electric (GE), Siemens Limited, ABB India Limited among others from whom the company garners repeated orders.

***Comfortable order book position***

As on August 31, 2020, the order book position of the company stood at about Rs.294.60 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).

***Stable Industry Outlook***

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******Moderate operational and financial performance during FY20 and Q1FY21***

The capacity utilization of the company continues to remain at moderate level of around ~60% during FY20 (~70% in FY19) characterized by the slowdown in the economy. The performance of the company was also impacted in the month of March 2020 and in Q1FY21 owing to imposition of the lockdown and temporary halt in the operations. Consequently, TOI and PBILDT level of the company declined y-o-y by around 16% and 13% respectively during FY20 although the profitability margin remained steady backed by execution of better margin projects.

During Q1FY21, the total operating income of the company remained low at Rs.62.09 crore with PBILDT of Rs.2.62 crore and the company reported a net loss of Rs. 9.78 crore during the period.

***Moderate capital structure***

The capital structure of the company continues to remain leveraged owing reliance of term debt for regular capex along with extensively utilized working capital limits. Overall gearing of the company remained at 1.33x as on March 31, 2020 as compared to 1.34x as on March 31, 2019 despite rise in the debt levels of the company because of equity infusions and accretion of profits to net worth. Further, the total debt/GCA of the company also moderated from 4.88x in FY19 to 7.07x in FY20 on account of increase debt level coupled with decline in GCA level. The interest coverage ratio although declined, remained satisfactory at 2.37x during FY20.

***Elongated operating cycle***

PEL's nature of business and operations results in extended operating cycle (115 days in FY20, deteriorated from 94 days in FY19). This is primarily because of elongated inventory and collection days in view of the overall turnaround time involved in the exports as well as credit period extended to the customers. Therefore, company's reliance of working capital borrowings also tends to remain high.

***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 new and renowned clients; the contribution of revenue from top five clients continues to remain high which was around 75% of the TOI during FY20.

***Proposed debt funded capex***

The company proposes to incur capex of around Rs.270.00 crore (revised from 190.00 crore envisaged earlier) over the next three years towards capacity augmentation 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 proposed capex is likely to result in moderation of capital structure and may impact

the cash flows of the company over in medium term. Also, completion of the envisaged capex without any further time or cost overrun remains critical from rating perspective.

#### **Liquidity analysis: Adequate**

The liquidity position of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Liquidity is supported by above unity current ratio. Further, the company had a cash and liquid investments to the tune of Rs.7.54 crore as on March 31, 2020. However, average working capital utilization was high at around 86% for the twelve months ended June, 2020. The company has availed moratorium for 6 months (March'20 to August'20) for its debt servicing. Nevertheless, the company is supported by regular fund infusions by the promoters.

**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

Rating methodology – Manufacturing Companies

Financial ratios - Non Financial Sector

Liquidity Analysis of Non Financial Sector Entities

#### **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.

<b>Brief Financials (Rs. Crore)</b>	<b>FY19 (A)</b>	<b>FY20 (A)</b>
Total operating income	628.75	527.49
PBILDT	92.73	80.15
PAT	23.72	17.10
Overall gearing (times)	1.34	1.33
Interest coverage (times)	3.18	2.37

*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

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

**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	-	-	-	204.74	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	150.50	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	0.00*	Withdrawn
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	40.50	CARE A2
Fund-based - ST-Forward Contract	-	-	-	2.64	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	89.50	CARE A2
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	10.50	CARE BBB+; Stable / CARE A2

\*The ratings of facility has been withdrawn as the company has not availed the proposed LC/BG.

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	204.74	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Feb-20) 2)CARE BBB+; Positive (09-Sep-19)	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Stable (13-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	150.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Feb-20) 2)CARE BBB+; Positive (09-Sep-19)	1)CARE BBB+; Positive (03-Sep-18)	1)CARE BBB+; Stable (13-Sep-17)
3.	Non-fund-based - ST-BG/LC*	ST	-	-	-	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)	1)CARE A2 (13-Sep-17)
4.	Fund-based - ST-Bills discounting/	ST	40.50	CARE A2	-	1)CARE A2 (19-Feb-	1)CARE A2 (03-Sep-	1)CARE A2

	Bills purchasing					20) 2)CARE A2 (09-Sep-19)	18)	(13-Sep-17)
5.	Fund-based - ST-Forward Contract	ST	2.64	CARE A2	-	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	1)CARE A2 (03-Sep-18)	1)CARE A2 (13-Sep-17)
6.	Non-fund-based - ST-Letter of credit	ST	89.50	CARE A2	-	1)CARE A2 (19-Feb-20) 2)CARE A2 (09-Sep-19)	-	-
7.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.50	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (19-Feb-20) 2)CARE BBB+; Positive / CARE A2 (09-Sep-19)	-	-

\*The ratings of facility has been withdrawn as the company has not availed the proposed LC/BG.

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

#### Annexure 4: Complexity level of various instruments rated for this company

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 - ST-Bills discounting/ Bills purchasing	Simple
4.	Fund-based - ST-Forward Contract	Simple
5.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
6.	Non-fund-based - ST-BG/LC	Simple
7.	Non-fund-based - ST-Letter of credit	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – Ms. Nivedita Ghayal

Group Head Contact no. - +91-40-40102030

Group Head Email ID - [nivedita.ghayal@careratings.com](mailto:nivedita.ghayal@careratings.com)

### Relationship Contact

Name: Ramesh Bob

Contact no. : +91 90520 00521

Email ID: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**