August 19, 2022

Pravartaka Tooling Services Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	10.0	[ICRA]A (stable); assigned
Fund-based/ Non-fund Based Working Capital	10.0	[ICRA]A (stable)/[ICRA]A1; assigned
Unallocated Limits	30.0	[ICRA]A (stable)/[ICRA]A1; assigned
Total	**50.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned for Pravartaka Tooling Services Limited (PTS) incorporate the strong financial support enjoyed by the company from the parent, Amber Enterprises India Limited (AEIL), and the company's capabilities in injection moulding tools. Most of PTS' revenues emanates from established players such as LG Electronics India Private Limited (LG) (~40% of revenues in Q4 FY2022); the company has established relationships with customers across various industries.

The company's scale of operations remains limited (revenues of ~Rs. 37 crore in Q4 FY2022); it generated ~45% of its business from the consumer durables industry. PTS remains slightly exposed to seasonality challenges that quite often impact the RAC industry, with some diversification into electronic components manufacturing as well. As of March 31, 2022, AEIL owned about 60% of PTS, with an option and intent to eventually purchase 100% of the business. ICRA expects PTS to record a healthy growth in its scale of operations over the medium term, benefitting from AEIL's support and established position in the consumer durables industry.

The ratings assigned remained constrained by the company's limited scale of operations, even as its debt coverage indicators remain healthy (Interest coverage ratio[1] of 8.8 times in FY2022, after adjusting for one-time exceptional item of Rs. 12 crore). The company has capex plans of ~Rs. 10-12 crore in FY2023 to set up new plants and expand capacity. However, incremental revenues from the expansion of capacity and synergies from the acquisition by AEIL is likely to help improve coverage ratios, going forward.

The Stable outlook on the rating reflects ICRA's expectation that AmberPR will maintain a comfortable credit profile, aided by stable cash flow from operations and continued support from parent entity.

Key rating drivers and their description

Credit strengths

Access to operational and financial support from parent entity, AEIL – PTS benefits from a high likelihood of parent support from AEIL, which enjoys a prominent position in the air conditioner manufacturing industry. While PTS does not depend materially on AEIL for revenues, the subsidiary was acquired by AEIL with an intent to leverage its tool building capability across several consumer durables products. Further, the business of PTS will benefit from AEIL's established position

[1] Interest coverage ratio= Interest and finance costs/ Operating profit before depreciation, interest, taxes and amortzation

in the industry as the parent focusses on ramping up the business of PTS with AEIL's existing customers. This was also evident in its Q1 FY2023 revenues of ~Rs. 41 crore, a QoQ growth of ~14%.

Credit challenges

Limited scale of operations – PTS' scale of operations remains limited, having recorded revenues of Rs. 37 crore in the last quarter of FY2022, all of which was from the domestic market. Further, LG Electronics India Private Limited directly or indirectly drives nearly 40% of its total revenues, thereby leading to high customer concentration risk. An expectation of growth in business with various customers of the Amber Group is likely to lead to a moderation in customer concentration, going forward.

Dependency on consumer durables industry results in seasonality of business – About 45% the customers and products of PTS cater to the consumer durables industry, with approximately 30% exposure to the air conditioning industry alone. This exposes the company to slight risks of seasonality innate to the consumer durables business. During the past two years, disruption in demand to the RAC industry from the pandemic lockdowns impacted the prospects of the company to an extent. However, with fears of further waves of the pandemic reducing and the change in parentage post acquisition by AEIL, the growth prospects of the company remain healthy.

Liquidity position: Adequate

PTS' liquidity remains adequate, supported by expectation of moderate cash flows from operations (Rs. 7-8 crore estimated in FY2023) and sufficient working capital facilities buffer (sanctioned limits of Rs. 10 crore as of June 2022). In addition, the company has been sanctioned a term loan of Rs. 10 crore in March 2022 to fund the planned capex of Rs. 10-12 crore. Further, ICRA expects liquidity support from its parent, as and when required.

Rating sensitivities

Positive factors – The ability of the entity to record a material and continued increase in scale of operations/earnings, while reducing customer concentration may lead to an improvement in the rating. Any improvement in the credit profile of the parent entity AEIL may also lead to a rating improvement.

Negative factors – Negative pressure on the ratings could emanate in case of a sustained increase in working capital intensity, or any large debt-funded capex or decline in profitability resulting in material weakening of the company's liquidity and credit metrics. A weakening of the company's parent profile or a weakening in the linkages with the parent entity may also lead to a pressure on rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group support	The rating assigned to PTS factors in the high likelihood of its parent company extending financial support to it, because of its strategic importance and close business linkages. ICRA also expects AEIL to be willing to extend financial support to PTS out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

Pravartaka Tooling Services, incorporated in April 2021, is engaged in trading and manufacturing injection moulding components, tools, moulds, and dies for consumer durables, automotive and electronics industries. Currently, the company has three manufacturing units, with two in Greater Noida (Uttar Pradesh) and one in Manesar (Haryana). The company's majority shareholding (60%) was acquired by AEIL in February 2022, AEIL also has a put option to purchase the remaining stake.

Key financial indicators (audited)

AEIL Consolidated	FY2021	FY2022 (Jan -March 2022)^
Operating income	NA	37.0
PAT	NA	-7.4*
OPBDIT/OI	NA	-23.8%
PAT/OI	NA	-20.0%
Total outside liabilities/Tangible net worth (times)	NA	1.3
Total debt/OPBDIT (times)	NA	-0.5
Interest coverage (times)	NA	-23.2*

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore. ^ Financials are for the period of January 2022 to March 2022 * Impacted by exceptional one-time expense of Rs 12 crores with respect to acquisition*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 19, 2022	--	--	--
1	**Term Loan**	Long term	10.0	0.0	**[ICRA]A(Stable)**	**NA**	**NA**	**NA**
2	**Fund based/ Non Fund based Working Capital**	Long term and short term	10.0	NA	**[ICRA]A(Stable)/ [ICRA]A1**	**NA**	**NA**	**NA**
3	**Unallocated Limits**	Long term and short term	30.0	NA	**[ICRA]A(Stable) [ICRA]A1**	**NA**	**NA**	**NA**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund based/ Non Fund based Working Capital	Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 2022	7%	March 2027	10.0	[ICRA]A (Stable)
NA	Fund/Non Fund-based Working Capital	NA	NA	NA	10.0	[ICRA]A (Stable)/ [ICRA]A1
NA	Unallocated limits	NA	NA	NA	30.0	[ICRA]A (Stable)/ [ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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