



Rating Rationale

PG Electroplast Limited

18 Aug 2021

Brickwork Ratings Reaffirms the ratings with a change in Outlook to Positive for the Bank Loan Facilities of ₹. 313.35 Crores of PG Electroplast Limited.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (July 2020)	Present
Fund Based	124.83	180.35	Long Term	BWR BBB+ Stable Reaffirmed	BWR BBB+ Positive Reaffirmed
Fund Based	75.00	55.00	Short Term	BWR A2 Reaffirmed	BWR A2 Reaffirmed
Non-fund Based	53.00	78.00	Short Term	BWR A2 Reaffirmed	BWR A2 Reaffirmed
Total	252.83	313.35	INR Three Hundred Thirteen Crores and Thirty Five Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION/ OUTLOOK

Ratings: Reaffirmed

Brickwork ratings has reaffirmed the long term rating at BWR BBB+ and short term rating at BWR A2 respectively for the bank loan facilities of PG Electroplast Limited (PGEL). The Outlook has been revised to Positive from Stable.

The rating reaffirmation derives comfort from extensive experience of the promoters in consumer electronic manufacturing services, diversified product mix, established relationship with diversified and reputed client base, improved financial risk profile marked by an improved scale of operations coupled with low gearing level and comfortable debt protection metrics and liquidity position and with projected capacity expansion proposal. The ratings are however constrained by project execution and stabilisation risk, volatile and moderate profitability margins in line with volatile raw material costs, forex risk and intense competition which limits the pricing power of the company

The rating Outlook is changed to Positive supported by improved business outlook led by growth in turnover and profitability in FY21 and expansion capex proposal financed by equity infusion in the form of compulsory convertible debentures/ preference shares and internal accruals which will facilitate future growth without burdening the leverage profile of the company.



KEY RATING DRIVERS

Credit Strengths:-

- **Experienced Promoters:** The promoters have more than two decades of experience in the plastic moulding business and consumer electronic manufacturing services, which helps the company in securing repeat orders.
- **Diversified Product Portfolio:** The Company has been an Electronic Manufacturing Services (EMS) provider for Original Equipment Manufacturers (OEMs) and Plastic Injection Moulding Parts Manufacturer of consumer electronic products in India. The Company has been manufacturing plastic parts for a comprehensive range of consumer electronic products such as air conditioners (ACs), air coolers, refrigerators and washing machines. The customers include major reputed brands like LG Electronics, Carrier Midea, Sharp, Whirlpool of India Limited among others. In the last 3-4 years PGEL has expanded its business operations in the plastic injection moulding field by expanding capacities.
- **Improved financial profile:** The company has achieved total operating income (TOI) of ₹ 703.21 Crs in FY21 against operating income of Rs 639.42 Crs in FY20. During FY21, TOI improved on account of increase in sales of washing machine and indoor unit of AC. The company has grown at a CAGR of 17.61% over the period of (FY 19-21). The overall profitability of the company has improved in FY 21 as EBITDA (earning before interest, depreciation and tax) margin and net profit margin improved in FY 21 to 7.09% and 1.65% from 6.24% and 0.41% reported in FY 20 respectively. Company has a moderate gearing ratio (total overall liability/ tangible net worth) stood at 2.02x in FY 21. Also, the company has comfortable debt protection metrics as interest service coverage ratio & debt service coverage ratio stood at 2.70x and 1.44x in FY 21 which has improved from 2.70x and 1.27x in FY20 respectively.
- **Capacity expansion plan:** PG Electroplast Ltd is planning a large expansion in its capacities in FY22 through its wholly owned subsidiary PG Technoplast Ltd. (PGTL) at Ahmednagar and Noida. The expansion would be towards an integrated capacity of 1 million room AC (both indoor and outdoor AC units and investing in own moulds) to cater OEMs. The total estimated cost of the project is Rs 120 crores, out of which Rs 76 Crs are routed through issuance of compulsory convertible debentures and preference shares and remaining from internal accruals. This additional capacity would be operationalised in the month of October 2021. Additional capacity would fetch additional revenues for the company in near future. The company also intends to apply for the production linked Incentive (PLI) scheme of the central government for AC components in PGTL.

Credit Risks:-

- **Project execution and stabilisation risk:** The aforesaid capex in subsidiary PGTL is yet to be completed and the ability to derive optimum capacity utilisations and additional EBITDA from the same needs to be monitored.
- **Volatile and moderate profitability margins:** Although the margins are volatile because



prices of raw materials are linked to crude oil prices but company has made additions in its portfolio such as washing machine and indoor unit of AC which are now fetching better margins. As a result during FY21 , PAT margins improved to 1.65% against 0.41%. However ROCE (return on capital employed) remains low at 8.50% in FY21.

- **Forex Risk:** Company imports 10% of its raw material from Malaysia and China and the entity is not hedging its 100% forex exposure.
- **Intense competition:** Though the company's portfolio is diversified, the consumer electronic industry faces severe competition which limits the pricing power of the company which can be seen through moderate profitability margins of the company

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as debited in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIESPositive: Sustained increase in scale of operations along with improving credit metrics would lead to upgrade in ratings.

Negative: The rating outlook may be revised downward in case revenues and EBITDA of the company substantially deteriorates from current level. Rating may also be adversely affected in case of deterioration in gearing and coverage ratios.

LIQUIDITY POSITION (Adequate)

Fund based and non fund limit utilization for last one year month ended remains at 52.28% and non fund based limit utilization remains at 77.10% showing enough cushion available for any financial exigencies. During FY-21 cash accruals (profit plus depreciation) remain at Rs 29.63 Crs in FY21 against current portion of long term debts of Rs 14.95 Crs to be repaid in FY22. BWR expects cash accruals to be sufficient to meet its fixed repayment obligations. Further, the cash conversion cycle remained at a comfortable level of 32 days in FY21.

COMPANY PROFILE

Incorporated in 2003, PGEL is engaged in diversified electronic manufacturing services and plastic injection moulding. It has been listed on the Bombay Stock Exchange and National Stock Exchange since 2011. PGEL has five manufacturing facilities - three in Noida, Uttar Pradesh, one in Pune, Maharashtra and one in Roorkee, Uttarakhand . The Company has been an Electronic Manufacturing Services (EMS) provider for Original Equipment Manufacturers (OEMs) and Plastic Injection Moulding Parts Manufacturer of consumer electronic products in India. The Company has been manufacturing plastic parts for comprehensive range of consumer electronic products such as air conditioners (ACs), Colour TV sets, DVD players, Air Coolers, Refrigerators, , Automotive Plastic, Sanitary Ware, washing machines and The company is now focusing on manufacturing of items such air-cooler, washing machine, AC indoor units and mainly on plastic injection molding. PGEL is mainly supplying parts to consumer durable manufacturing companies.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	FY20	FY21
Result Type		Audited	Audited
Total Operating Income	Rs. in Crs	639.42	703.21
OPBDIT	Rs. in Crs	39.92	49.82
PAT	Rs. in Crs	2.61	11.62
Tangible Net Worth	Rs. in Crs	175.66	191.92
TOL/TNW	Times	1.84	2.02
Current Ratio	Times	0.94	0.99

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY : NA

RATING HISTORY FOR LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Nature of Instrument	Facilities Available	Current Rating (Sep 2020)			(Rs. Crores)					
		Tenure	Amount (In Crs)	Rating	2020		2019		2018	
Bank Loan Facility	Fund Based	Long Term	180.35	BWR BBB+ (Positive) (Reaffirmed)	28-Jul-2020		5-Jul-2019		01-Oct-2018	
					F B	124.83	BWR BBB+ (Stable)	F B	78.51	BWR BBB+ (Stable)
								06-Sep-2018		
								FB	51.09	BWR BB- (Stable) and withdrawal
Bank Loan Facility	Fund Based/ Non Fund Based	Long Term	133	BWR A2 (Reaffirmed)	30-Sep-2019		05-Jul-2019		01-Oct-2018	
					FB/N FB	128	BWR A2	FB/N FB	108	BWR A2
								06-Sep-2018		
								NFB	26.30	BWR A4 and withdrawal
	Total		313.35		INR Three Hundred Thirteen Crores Thirty Five Lacs Only					

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Sector](#)
- [Short Term Debt](#)

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PG Electroplast Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	SBI	Term Loan	29.00		29.00
2	SBI	GECL-Term Loan	8.64		8.64
3	SBI	Cash Credit	35.00		35.00
4	SBI	ILC/FLC/BG	-	53.00	53.00
5	SBI	Bill Discounting	-	5.00	5.00
6	HDFC Bank	Term Loan	32.71	-	32.71
7	HDFC Bank	STL-Covid-19	5.00	-	5.00
8	HDFC Bank	ECLGS-2.00	20.00		20.00
9	HDFC Bank	Cash Credit	35.00	-	35.00



10	HDFC Bank	ILC/FLC	-	25.00	25.00
11	HDFC Bank	Bill Discounting	-	50.00	50.00
12	ICICI Bank	WCDL	15.00	-	15.00
TOTAL					313.35

INR Three Hundred Thirteen Crores Thirty Five Lacs Only

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