Rating Rationale

Brickwork Ratings assigns 'BWR BB' & 'BWR A4' for the Bank Loan Facilities amounting to ₹ 41 Cr of Premprakash Tubes Ltd

Brickwork Ratings (BWR) has assigned the following **Ratings**[1] for Bank Loan Facilities of Premprakash Tubes Ltd *(PTL or 'the company')*

Facility	Amount (₹ Cr)	Tenure	Rating
Term Loan	9.00	**Long Term**	**BWR BB** (BWR Double B) **(Outlook: Stable)**
Cash Credit	27.00		
Letter of Credit	10.00	**Short Term**	**BWR A4** (BWR A Four)
Total	**41.00***	**(INR Forty One Crores only)**	

*** Annexure I for Details**

BWR has principally relied upon the audited financial results up to FY13, and projected financials up to FY16 of PTL, publicly available information and information/clarification provided by the company' management.

The rating has factored, inter alia, the Directors' competency & vast business experience in the steel pipe industry, locational advantage of the company and healthy order book position from large and reputed customers. However, the above rating strengths are partially offset by intense competition in the industry, low bargaining power with the large suppliers, moderate net worth and coverage indicators. The proposed rating also reflects the working capital intensity of operation in the steel pipe industry and low margin achieved by the company. PTL's financial profile is likely to get further stretched if the company undertakes any debt funded capex programme in FY15. The company's cash flow from operations will come under pressure in the event of any drop in revenues or margins, or a lengthening of its working capital cycle. This in turn will lead to debt servicing pressures.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Background

PTL was originally incorporated in December 2006 under the name "Premprakash Agro Products Private Limited" and in July 2007 the name of the company was changed to "Premprakash Tubes Private Limited". It was converted into Public Limited Company in March 2009 and has its manufacturing unit at Pithampur, Madhya Pradesh. The company is engaged in manufacturing of high grade MS & GI Pipes with installed capacity of the plant is 54000 MTPA. All these Pipe Fittings are made available in different thicknesses, grades and diameters to meet the demands of numerous industries such as water transportation, machine building, automobile and infrastructure developments.

PTL is a public limited company (unlisted) promoted and controlled by Mr. Mukesh Sharma & family. Mr. Mukesh Sharma is the Managing Director of the company who is actively involved in the business. He is well supported by senior level management team to look after the day to day operation at PTL.

Financial Performance

PTL has achieved sales turnover of ₹118.85 Cr in FY13 as against ₹128.24 Cr in FY12. The company has reported net profit of ₹1.04 Cr in FY13 as compared to ₹0.40 Cr in FY12. Tangible Net worth stood at ₹9.71 Cr as on March 31, 2013 as against ₹8.68 Cr as on March 31, 2012. Gearing ratio is observed at 3.98x in FY13, an increase from 2.94x in FY12 due to new debt borrowing.

Rating Outlook

The company's financial risk profile will remain modest over the medium term, marked by its average debt protection metrics and moderate net worth. PTL's operations in the short term are expected to be stable due to its healthy order book position from the well-established and diverse clients. Going forward, healthy growth in terms of sales turnover, increase in profit margins, improvement in liquidity and increase in net worth by additional capital infusion by the Directors, would be key rating sensitivities.

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ANNEXURE I

Bank Name	Facility	Amount (₹ Cr)
Central Bank of India	Term Loan	**9.00**
	Cash Credit	**4.50**
	Letter of Credit	**4.50***
Bank of India	Cash Credit	**22.50^**
	LC/BG	**10.00^**
	Total	**41.00**

*** Sublimit LC is fully interchangeable with CC limit of ₹ 4.50 Cr**

^The total sanctioned limits are ₹ 27.50 Cr which includes CC limit up to ₹ 22.50 Cr & LC limit up to ₹ 10.00 Cr (Interchangeability between CC & LC facilities to the tune of ₹ 5 Cr)