Press Release
Permanent Magnets Limited
April 16, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.86	ACUITE BBB- | Stable | Upgraded	-
Bank Loan Ratings	17.62	-	ACUITE A3 | Upgraded
Total Outstanding Quantum (Rs. Cr)	34.48	-	-

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** and the short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)'** on the Rs. 34.48 crore bank facilities of Permanent Magnets Limited (PML). The outlook is **'Stable'.**

Rationale for upgrade

The rating has been upgraded considering PML's sustained improvement in the operating performance along with a healthy financial risk profile. The operating revenue stood at Rs.183.53 Cr in FY2023 as against Rs.129.75 Cr in FY2022 reporting growth of 41.44 percent. The EBITDA margins stood at 24.98 percent in FY2023 as against 22.76 percent in FY2022. Further, the company achieved a revenue of Rs.147.88 Cr till 9MFY24 with operating margin of 20.25 percent and expecting to achieve turnover of Rs.200-210 Cr in FY2024. The financial risk profile is healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood at 110.84 Cr as on March 31 2023 as against Rs.82.08 Cr as on March 31 2022. the gearing level of the company stood low at 0.05 times as on March 31 2023, as against 0.03 times as on March 31, 2022. Further, the debt protection metrics of the company are comfortable with Interest coverage ratio (ICR) and Debt service coverage ratio (DSCR) of 35.41 times and 27.68 times as of March 31, 2023. The rating further continues to factor in the long-standing experience of the management and PML's established track record of operations.
The rating however remains constrained due to intensive working capital operations, high reliance on non-fund-based working capital limits.

About the Company

Mumbai based, Permanent Magnets Limited (PML) was incorporated in the year 1960, by Mr. Kantilal Morarji Desai, which was sold off to Taparia Group in the year 1965. It is the flagship company of the Group. PML is engaged in manufacturing of Alnico (Aluminium, Nickel and Cobalt) Magnets & Magnetic assemblies, parts and accessories of Electricity Meters, Gas Meters and Electrical vehicles. The company has its manufacturing facility at Mira road, Mumbai and is currently promoted and managed by Taparia family.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Permanent Magnets Limited (PML) to arrive at this rating

Key Rating Drivers

Strengths

Experienced management and established track record of operations

PML is in operations since 1960 and has market presence in India as well as the USA, Europe and Brazil. The Promoters, Mr. Sharad Taparia, Managing Director have 27 years of work experience in the magnet industry. The promoters are assisted by the second line of management who are well experienced in the industry. On the back of the experienced management, the company has been able to maintain its long-term association with customers and suppliers with the few of the customers been associated for more than two to three decades.
The operating income of PML is improving YoY and stood at Rs.183.53 Cr as on FY2023 as against Rs.129.75 Cr in FY2022 reporting growth of 41.44 percent in FY2023. The improvement in operating income is due to two primary reason i.e company's ability to get higher wallet share in product categories of electricity meter operations and increase in demand under automobile segment. The EBITDA margins are improving YoY and stood at 24.98 percent in FY2023 as against 22.76 percent in FY2022. The PAT margin of the company stood at 16.21 percent in FY2023 as against 14.68 percent in FY2022. The ROCE of the company is improving YoY and stood comfortable at 41.70 percent in FY2023 as against 35.95 percent in FY2022. Further, the company has achieved a revenue of Rs.147.88 Cr till 9MFY24 with operating margin of 20.25 percent and expecting to achieve turnover of Rs.200-210 Cr in FY2024. The growth of the company is subdued in FY2024 is due to relatively lesser demand under EV segments and postponement of export orders.
With the introduction of new products like alloy casting, modules and components, etc, and venturing into forward integration, Acuite believes that company will be able to seize its growth momentum and improve their scale of operations over the medium term.

Healthy financial risk profile

The financial risk profile of the PML is healthy marked by high net worth, comfortable debt protection metrics and low gearing ratio. The net worth of the company stood at 110.84 Cr as on March 31 2023 as against Rs.82.08 Cr as on March 31 2022 aided by sizeable accretion to reserves. The company has paid dividend of Rs.1.03 Cr in FY2023. The company follows a conservative leverage policy as reflected in the gearing level of the company of 0.05 times as on March 31 2023, as against 0.03 times as on March 31, 2022. The total debt of the company which stood at Rs.5.98 crore includes Rs.4.02 Cr of long-term debt, Rs.1.84 Cr of short term debt and Rs.0.12 Cr of current maturities of long term debt. The long-term debt includes Rs. 1.76 crore (interest on the central excise loan). Further, the Total outside liabilities to total net worth (TOL/TNW) stood low at 0.35 times as on FY2023 as against 0.39 times as on FY2022. The Debt/ EBITDA stood at 0.13 times as on March 31 2023 as against 0.09 times as on March 31 2022.
Further, the debt protection metrics of the company are comfortable with interest coverage ratio (ICR) of 35.41 times as of March 31,2023 as against 33.85 in the previous year. The debt service coverage ratio (DSCR) improved to 27.68 times as of March 31,2023 as against 25.36 times in the previous year. The NCA/ TD stood at 5.89 times for FY2023.
PML is planning to shift the entire plant & machinery location to a new site. The total CAPEX cost is Rs.25-30 Cr. The entire CAPEX is being funded through internal accruals and term loan. The company is expecting to finish the CAPEX by FY2027.
Acuite believes that financial risk profile of the PML will continue to remain healthy owing to strong net worth and high operating margins.

Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by high GCA days of 221 days for March 31 2023 as against 233 days for March 31 2022 on account of high debtors and inventory days. Receivables days stood high at 109 days as on March 31, 2023 as against 106 days as on March 31 2022. High receivable days is due to few billings being concentrated towards the end of every fiscal year. Inventory days stood at 142 days as on

March 31, 2023 as against 136 days as on March 31 2022. Post COVID-19, due to the high lead time & disturbance in the logistics, company has increased their inventory holding levels. Raw materials consists of 75 percent of their total inventories. The creditor days improved in FY2023 however stood high at 108 days as on March 31 2023 as against 142 days as on March 31 2022. The fund-based limits are almost unutilised; however the LC limits are fully utilised for the last twelve months as of January 2024.
The working capital operation of the PML will continue to intensive owing to nature of business operations.

Highly competitive and fragmented industry
The company is exposed to high competition from organized as well as unorganized players in the industry. PML is exposed to volatility in the prices of raw materials and foreign exchange fluctuations can have an impact on the margins of the company. However, the company has a natural hedge which mitigates the forex risk to some extent.

Rating Sensitivities

- Timely completion of capex without cost overrun
- Any further elongation of working capital cycle

Liquidity Position: adequate

PML has an adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.35.24 crore for FY2023 as against the nil current maturities in the same year. Going forward the company is expected to generate net cash accruals in the range of Rs.32.67 – 40.82 Cr as against less than Rs. 1.00 Cr CPLTD repayment obligations. The company maintained unencumbered cash and bank balances of Rs.7.70 crore as on 31 March 2023. The current ratio stood high at 3.56 times as on March 31 2023.
However, the non-fund-based limits remained highly utilised at 100.00 percent for the last twelve months as of January 2024. Moreover, the working capital management of the company is intensive in nature marked by Gross Current Assets (GCA) of 221 days as of 31st March 2023 as compared to 233 days as of 31st March 2022.
Acuité believes that going forward, the absence of any committed term liabilities would further strengthen the liquidity profile of the company.

Outlook: Stable

Acuite believes that PML will maintain a "stable" outlook in the medium term and will continue to benefit over the medium term due to its experienced management, healthy operating profit margins and net worth. The outlook may be revised to "Positive" if the company demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than anticipated cash accruals thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	183.53	129.75
PAT	Rs. Cr.	29.75	19.05
PAT Margin	(%)	16.21	14.68
Total Debt/Tangible Net Worth	Times	0.05	0.03
PBDIT/Interest	Times	35.41	33.85

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Feb 2023	Cash Credit	Long Term	4.68	ACUITE BB+ | Stable (Upgraded from ACUITE C | Not Applicable)
	Cash Credit	Long Term	3.82	ACUITE BB+ | Stable (Upgraded from ACUITE C | Not Applicable)
	Proposed Long Term Bank Facility	Long Term	1.86	ACUITE BB+ | Stable (Upgraded from ACUITE C | Not Applicable)
	Term Loan	Long Term	6.50	ACUITE BB+ | Stable (Upgraded from ACUITE C | Not Applicable)
	Proposed Short Term Bank Facility	Short Term	2.22	ACUITE A4+ (Upgraded from ACUITE A4)
	Letter of Credit	Short Term	11.40	ACUITE A4+ (Upgraded from ACUITE A4)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Upgraded from ACUITE A4)
09 Dec 2021	Letter of Credit	Short Term	2.96	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	8.44	ACUITE A4 (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	6.22	ACUITE A4 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	8.36	ACUITE C | Not Applicable (Reaffirmed)
	Cash Credit	Long Term	3.82	ACUITE C | Not Applicable (Reaffirmed)
	Cash Credit	Long Term	4.68	ACUITE C | Not Applicable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.82	ACUITE BBB- | Stable | Upgraded (from ACUITE BB+)
Central Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.68	ACUITE BBB- | Stable | Upgraded (from ACUITE BB+)
Central Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.40	ACUITE A3 | Upgraded (from ACUITE A4+)
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A3 | Upgraded (from ACUITE A4+)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.86	ACUITE BBB- | Stable | Upgraded (from ACUITE BB+)
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.22	ACUITE A3 | Upgraded (from ACUITE A4+)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2028	Simple	6.50	ACUITE BBB- | Stable | Upgraded (from ACUITE BB+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.