

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Cabcon India Ltd (CIL)

July 3, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities- Cash Credit	90.00	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	Assigned
Short Term Bank Facilities- ILC/FLC	40.00	IVR A2+ (IVR A Two Plus)	Assigned
Short Term Bank Facilities- BG	202.00	IVR A2+ (IVR A Two Plus)	Assigned
Total	332.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Cabcon India Ltd (CIL) derives comfort from the long track record of operations and experience of the promoters in the cables and conductors industry, demonstrated support from the promoters, diversified product mix, reputed clientele with low counter-party payment risk, healthy order-book position, and partially integrated operations of the group. The ratings also factor in its satisfactory financial performance over the years, financial profile marked by satisfactory gearing and debt protection metrics and favourable outlook of cables and conductors industry in India. However, the rating strengths are partially offset by susceptibility of its operating margin to fluctuation in input prices, exposure to intense competition leading to range bound margins and elongated receivables cycle leading to high working capital intensity. Sharp increase in scale and profitability, improvement in the capital structure through proposed infusion of equity capital as envisaged, successful execution of the EPC contracts within envisaged timelines, efficient working capital management through reduction in collection period are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations and experienced promoters in cables and conductors industry

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Incorporated in 1991 by Mr. S.B Fomra, CIL has a track record of about three decades of operations in the cables and conductors industry. The promoters are vastly experienced in this industry for the past three decades. Presently, the day to day operations of the company are managed by Mr. Madan Mohan Fomra (Managing Director), Mr. Vijay Kumar Fomra and Mr. Manish Kumar Fomra (Sons of Mr. S.B. Fomra) each of whom are having experience of more than 20 years in this business. Besides the company has a strong technical team comprising of engineers in charge of production, technical and quality functions who are vastly experienced in the said industry having worked with leading players previously.

Demonstrated support from the promoters

The promoters have supported the business by infusing funds as required in the form of subordinated unsecured loans (Rs.27.77 crore outstanding as on March 31, 2019) and have demonstrated positive commitments since inception. In the current year (FY20), the promoters have already brought in fresh equity (allotment of shares pending) to the extent of Rs.2 crore. They have also provided an undertaking to infuse another Rs.3 crore by September, 2019.

Diversified product mix

CIL is engaged in the business of manufacturing of wide range of cables (LT Power Cable, LT Control Cable and LT Aerial Bunched Cable, PVC Aluminium Cables) and conductors (All Aluminium Conductors (AAC), All Aluminium Alloy Conductors (AAAC), Aluminium Conductor Steel Reinforced (ACSR), Aluminium Alloy Conductor Steel Reinforced (AACSR) which finds applications in Power Transmission & Distribution Lines, Rural Electrification, etc. The revenues from manufacturing operations constitutes ~60% of its total operating income in FY19 (Prov.)[(~67% of TOI) in FY18]. Besides the company is also involved in EPC work for installation of power distribution lines and sub-stations under different schemes of the Central Government. The revenues from EPC segment constitutes ~40% of its total operating income in FY19 (Prov.) [(~33% of TOI) in FY18]

Reputed Clientele with low counter party payment risk

CIL has a diversified client base comprising various government discoms, departments and reputed private players. The repeat orders received from its clientele validate its capabilities.

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Though CIL has low bargaining power with its customers, its clientele base has sound credit risk profile, which reduces the counter party payment risk to a certain extent.

Healthy order book position

CIL's unexecuted order book position as on March 31, 2019 stood at around Rs.931 crores (~1.70 times of its FY19 (Prov.) operating income) comprising pending orders worth ~Rs.552 crores for the EPC division and ~Rs.379 crores for the manufacturing division. The orders for cables and conductors (manufacturing division) are expected to be executed over 12 to 15 months while the EPC orders will be executed over 1.5-2 years, indicating a satisfactory near to medium term revenue visibility.

Partially integrated operations

In fiscal 2008, the promoters of CIL set up another company, M/s. Shreyash Aluminium & Alloys Pvt Ltd (SAAPL) for manufacturing aluminium wire rods with a capacity of 24000 TPA. The company procures aluminium ingots from established players like Hindalco, NALCO, etc along with various local players/traders. Thereafter, these ingots are given to group company, SAAPL for manufacturing of Aluminium wire rod (from which cables and conductors are made) on job work basis. The entire requirement for aluminium wire rods is met from SAAPL. The partially integrated nature of operations benefits the company in terms of quality output and overall performance efficiency.

Satisfactory financial performance

CIL's total operating income (TOI) grew at a CAGR of 22% to Rs.565.04 crore over FY15-FY18 mainly driven by rise in contribution from the EPC business along with healthy demand for the manufacturing division. Further, with growth in operations, profitability and cash accruals have remained satisfactory over the aforesaid period. However, the TOI dampened by about ~3% in FY19 (Prov.) due to decline in manufacturing sales by about 14.5%. The manufacturing sales of the company declined in FY19, as the company went slow in its execution in the first half of the year (FY19) as a result of abnormal volatility in aluminium prices emanating from macro-economic issues. However, despite deterioration in TOI, the cash accruals have improved from Rs.13.92 crore in FY18 to Rs.16.79 crore in FY19. The improvement in cash accruals pertains to reduction in interest charges during the year.

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Satisfactory financial profile marked by satisfactory gearing and debt protection metrics; equity infusion in H1FY20

The capital structure of the company remained moderate with almost nil long-term debt to equity ratio and overall gearing ratio at 1.15x as on March 31, 2019 considering unsecured loans amounting to Rs.27.77 crore extended by the associate concerns/directors as neither debt nor equity. In order to improve its capital structure and to reduce its overall leverage in the context of increasing scale of operations, the company has already brought in fresh equity (allotment of shares pending) to the extent of Rs.2 crore in the current year (FY20) and another Rs.3 crore is expected to come in the current year (By September 2019, as per the undertaking given by the company). The debt coverage parameters like interest coverage ratio and Total debt to GCA remained satisfactory at 2.24x (1.47x in 2018) and 5.62x in fiscal 2019 (6.38x in FY18). Total indebtedness as reflected by TOL/Adjusted Net Worth also remained moderate at 4.54x as on March 31, 2019.

Favourable outlook of cables and conductors industry in India

The cables and conductors industry is open to significant growth opportunities on account of investments planned in the power and infrastructure sectors by the government. Investment by the central government through schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS) and Saubhagya will continue to maintain the demand in the cables and conductors' segment.

Key Rating Weaknesses

Susceptibility of operating margin to fluctuations input prices

CIL's operating margin is susceptible to volatility in its input prices (mainly aluminum). The company procures raw material from majors like NALCO, Hindalco and Vedanta. Any upward movements in the prices of aluminum, the primary raw material used in the manufacture of cables and conductors can have an adverse effect on the profit margins. However, the company limits this risk by hedging in the commodity markets (like MCX). Further, the company has escalation clause in most of its contracts.

Exposure to intense competition; leading to range-bound margins

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The industry is characterized by high fragmentation with a large number of unorganized players, constraining the pricing power of organized sector players. Apart from the unorganized sector, CIL also faces competition from the organized sector players. The EBITDA margins have remained range-bound between 7.5-8.5% over the last few years given the intense competition and fragmentation in the industry.

Receivable cycle remains elongated leading to high working capital intensity

The receivable cycle of CIL remained high, largely on account of elongated payment cycle from its clients and sizeable retention money in the EPC division. The high working capital intensity is further reflected from the high average utilization of its fund-based limit of Rs.90 crore for the 12 months ended March 2019. However, the company optimizes the working capital cycle by availing higher credit period from its creditors (including stretching payments made to sister concerns for job work done).

Analytical Approach: Standalone.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations of about Rs.0.2 crore in FY20 and unencumbered cash and bank balance of Rs.6.87 Crore as on March 31, 2019 (Prov.). The company has no near term capex plan. Its bank limits are utilized to the extent of ~98% during the past 12 months ended March, 2019 indicating limited cushion.

About the Company

Cabcon India Ltd (CIL) was initially incorporated as a private limited company by Kolkata (West Bengal) based Mr. S.B. Fomra. CIL is engaged in manufacturing and supply/export of Aluminium Conductors, PVC Aluminium Cables, LT Power and Control Cable and LT AB Cables used in power transmission and distribution with its two manufacturing facilities located at Howrah and Kolkata (Both are in the state of West Bengal) with an aggregate capacity of 30,000 MT for manufacturing of cables and conductors. In order to diversify its operations, the company has ventured into execution of turnkey projects for installation of

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power distribution lines and sub-stations under different schemes of the Central Government since 2010. In 2018, the constitution of the company was converted into a public limited company.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	565.04	547.08
EBITDA	45.93	41.27
PAT	11.61	14.26
Total Debt (Excl. Subordinated Loans)	88.83	94.29
Tangible Net worth	67.64	81.81
EBITDA Margin (%)	8.13	7.54
PAT Margin (%)	2.03	2.60
Overall Gearing Ratio (x) (Excl. Subordinated Loans)	1.31	1.15

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	90.00	IVR A-/ Stable Outlook	-	-	-
2.	Short Term Non Fund Based Limits - ILC/FLC	Short Term	40.00	IVR A2+	-	-	-
3.	Short Term Non Fund Based Limits - BG	Short Term	202.00	IVR A2+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits—Cash Credit	-	-	-	90.00	IVR A-/ Stable Outlook
Short Term Non Fund Based Limits – ILC/FLC	-	-	-	40.00	IVR A2+
Short Term Non Fund Based Limits – BG	-	-	-	202.00	IVR A2+