Press Release

Cabcon India Limited

July 11, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Cash Credit/Overdraft	110 (including proposed limit of Rs. 10 crore enhanced from Rs. 100 crore)	IVR BBB+/ Positive (IVR triple B plus with Positive Outlook)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Short Term Bank Facilities – ILC/FLC	85 (including proposed limit of Rs.29 crore increased from Rs 75 crore)	IVR A2 (IVR A two)	Reaffirmed	Simple
Short Term Bank Facilities – Bank Guarantee	267 (including proposed limit of Rs.41 crore increased from Rs 237 crore)	IVR A2 (IVR A two)	Reaffirmed	Simple
Total	**462 (INR Four hundred and sixty two crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Cabcon India Limited (CIL) considers improvement in the financial performance of the company in FY22 with rise in profit levels and its healthy order book position indicating healthy revenue visibility in the near to medium term. Moreover, the ratings also take note of the improvement in the capital structure of the company coupled with its satisfactory debt protection metrics. Further, the ratings continue to derive comfort from extensive experience of its promoters in the cable and conductors' industry. However, these rating strengths continues to remain 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. The outlook has been revised from stable to positive due to expected improvement in the financial performance and liquidity position of the company in the near to medium term.

Key Rating Sensitivities:

Upward Factors

- Significant improvement in scale of operations with continuous inflow of orders and improvement in profitability leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in TOL/TNW to below 2x and improvement in debt protection metrics with interest coverage ratio to over 2.5x
- Improvement in liquidity with improvement in the operating cycle and improvement in average working capital utilisation

Downward Factors

- More than expected moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators on a sustained basis
- Moderation in the capital structure with overall gearing moderated to more than 1x
- Elongation in operating cycle leading to deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record of operation in cables and conductor's industry**

Incorporated in 1991 by Mr. SB Fomra, CIL has a track record of about three decades of operations in the cables and conductor's industry. The promoters are vastly experienced in this industry and associated with this industry for past three decades. Presently, the day-to-day operations of the company is managed by Mr. Madan Mohan Fomra (Manging 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 well supported by a team of experienced personnel.

- **Demonstrated support from the promoters**

The promoters supported the business by arranging funds as required in the form of unsecured loans (Rs.27.66 crore outstanding as on March 31, 2022, has been treated as quasi equity) and have demonstrated positive commitments since inception. Further, in FY21, the promoters have brought in fresh capital to the extent of Rs.5 crore and undertake to brought in another Rs.5 crore in FY23.

- **Strong technical team**

Electrification projects requires expertise for smooth execution of contracts. The company has a strong technical team comprising 15 engineers for execution of its EPC projects. Besides, the manufacturing department has another 5 engineers, who are in charge of production, technical and quality functions. The entire technical team (manufacturing and projects) have previously worked with leading players from the same industry like Polycab, KEI, RPG, Atlas cable, L&T etc.

- **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 various industries which primarily includes Power Transmission & Distribution Lines, Rural Electrification, etc. The manufacturing operations contributes around Rs.346 crore [~80% of its total operating income in FY22] [~Rs.241 crore (~67% of TOI) in FY20]. 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. EPC segments caters to around Rs.88 crore [~20% of its total operating income in FY22] [~Rs.126 crore (~35% of TOI) in FY20].

- **Reputed Clientele with low counter party payment risk**

CIL has a diversified client base comprising various government discoms, departments and reputed private players. For the manufacturing division, CIL caters to renowned EPC project executors like L&T, ABB, Siemens, Power Grid among others. The repeat orders received from its clientele validates its capabilities. Though CIL has low bargaining power with its customers, its clientele base has sound credit risk profile, which does reduce the counter party payment risk to a certain extent.

- **Healthy order book position**

CIL's unexecuted order book position as on June 01, 2022 stood at around Rs.566.99 crore (~1.30 times of its FY22 operating income) comprising pending orders worth Rs.244.79

crore for the EPC division and Rs.332.20 crore from the manufacturing division. The orders for cables and conductors (manufacturing division) are expected to be executed over 6 - 8 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, 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.

- **Improvement in financial performance in FY22**

CIL has witnessed improvement in its FY22 performance driven by improvement in market scenario and higher inflow of orders coupled with satisfactory execution of the same. The total operating income increased to Rs. 433.63 core in FY22 (Prov.) from Rs.366.46 crore in FY21 due to increase in revenue from both manufacturing division. With the increase in top line in FY22, absolute EBITDA improved to Rs. 41.08 crore from Rs.36.63 crore. Though, EBIDTA margin declined marginally to 9.47% in FY22 (Prov.) from 9.99% in FY21 due to increase in operational and administrative overheads. The PAT margin increased to 3.27% in FY22 (Prov.) from 2.89% in FY21 due to reduction in depreciation expenses and increase in non-operating expenses. GCA also improved to Rs.16.28 crore in FY22(prov.) from Rs.12.76 crore in FY21 which is increase of 28%.

- **Comfortable capital structure**

The capital structure of the company remained comfortable marked by debt equity ratio at 0.20x as on March 31, 2022 (Prov.) [0.15x as on March 31, 2021] and overall gearing ratio at 0.83x as on March 31, 2022 (Prov.) [0.90x as on March 31,2022] (considering the adjusted TNW at Rs.148.36 crore after adjusting the loans extended by sister concerns aggregating to Rs.27.66 crore as quasi equity as mentioned in bank sanction letter and excluding exposure to group companies). Total indebtedness of the company marked by TOL/ATNW improved to 1.93x as on March 31, 2022 (Prov.) from TOL/ATNW of 2.71x as on March 31, 2021 with accretion of profit to net worth. The debt protection metrics of the company continued to remain moderate with interest coverage ratio at 1.77x in FY22 (Prov.) [1.60x in FY21] and Total debt to EBITDA at 3.01x as on March 31,2022 (3.28x as on March 31,2021).

- **Favourable outlook of cable/conductors and wires in India**

The cables and conductor's 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. Also, the government approval of the Revamped Distribution Sector Scheme (RDSS) to help DISCOMs improve their operational efficiencies. The scheme has an outlay of Rs 3,03,758 Crore over a period of 5 years - FY 2021-22 to FY 2025-26. To cater the high demand of Cables – driven by Government initiative the company has planned for Capex of around Rs. 10.00 Crore in the current financial year 22-23, which is expected to increase the manufacturing capacity of Cable unit by two – fold.

Key Rating Weaknesses

- **Susceptibility of operating margin to fluctuation in input prices**

CIL's operating margin is susceptible to volatility in its input prices (mainly aluminium). The company procures raw material from majors like NALCO, Hindalco under MOU along with various traders. Any upward movements in the prices of aluminium, 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**

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, CIL also faces competition from the organized sector players. The EBITDA margins have remained range-bound between ~9-10% 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. Clients for the manufacturing division receive credit of 60-90 days. However, at times payments are stretched further (mainly by government entities). For the EPC division, ~60% of the bill amount is received against supply. About ~30% is against erection (which usually takes anywhere between 5-6 months or even more) and the balance ~10% is on account of retention money which is released post completion. The high working capital intensity is further reflected from almost full utilization of its fund-based limit during the 12 months ended April 22. 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). The working capital cycle though remained high improved to 143 days from 152 days in FY21 due realisation of the retention money in FY22.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity –Adequate

Adequate liquidity characterized by expected sufficient cushion in cash accruals which is expected to be in the range of Rs.21 crore to Rs.36 crore in the projected years FY23 to FY25 vis-à-vis its repayment obligations of about Rs.5.47 crore, Rs. 6.64 crore and Rs. 8.34 crore respectively in FY23, FY24 and FY25. The current ratio also remained comfortable at 1.44x as on March 31, 2022. Further, the overall gearing ratio at 0.83x as on March 31, 2022 also indicates adequate gearing headroom. However, bank limits are almost fully utilized during the past 12 months ended April 2022 indicating a limited liquidity buffer. The non-fund-based utilisation remained moderate at ~67% during the last twelve months ended June 2021.

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 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):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Provisional
Total Income	369.38	436.91
EBIDTA	36.63	41.08
PAT	10.69	14.30
Total Debt	120.27	123.85
Tangible Net Worth	114.94	129.24
Adjusted Tangible Net Worth	134.06	148.36
EBDITA Margin (%)	9.99	9.47
PAT Margin (%)	2.89	3.27
Overall Gearing Ratio (x)	0.90	0.83

**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 Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (February 25, 2021)	Date(s) & Rating(s) assigned in 2020-21 (September 03, 2020)	Date(s) & Rating(s) assigned in 2019-20 (July 03, 2019)
1.	Cash Credit	Long Term	110	IVR BBB+ / Positive	-	IVR BBB+ / Stable	IVR A- / Stable	IVR A- /Stable
2.	ILC/FLC	Short Term	85	IVR A2	-	IVR A2	IVR A2+	IVR A2+
3.	Bank Guarantee	Short Term	267	IVR A2	-	IVR A2	IVR A2+	IVR A2+

Name and Contact Details of the Rating Analyst:

Name: Preety Jalan Tel: (033)- 46022266 Email: preety.jalan@infomerics.com	Name: Avik Podder Tel: (033)- 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook

Cash Credit/Overdraft	-	-	-	110 (including proposed limit of Rs. 10 crore)	IVR BBB+/ Positive
ILC/FLC	-	-	-	85 (including proposed limit of Rs. 29 crore)	IVR A2
Bank Guarantee	-	-	-	267 (including proposed limit of Rs. 41 crore)	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Cabcon-India-july22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.