Press Release

Cabcon India Limited

December 21, 2022

Ratings

Instrument / Facility	**Amount (Rs. crore)**	**Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Bank Facilities	110.00 (including proposed limit of Rs. 10.00 crore)	IVR A-/Stable (IVR Single A minus with Stable outlook)	Revised from IVR BBB+/ Positive (IVR Triple B plus with Positive outlook)	Simple
Short Term Bank Facilities	302.00 (including proposed limit of Rs.20.00 crore)	IVR A2+ (IVR A two plus)	IVR A2 (IVR A two)	Simple
Total	**412.00 (INR four hundred and twelve crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision of the ratings assigned to the bank facilities of Cabcon India Limited (CIL) considers improvement in the topline and profits in FY22 and H1FY23 (provisional) and its healthy order book position indicating healthy revenue visibility in the near to medium term. Further, the ratings also take note of the improvement in the receivables position owing to substantial realisation of retention money during the FY22 and H1FY23 (provisional). Infomerics expects the collection period to remain range bound between 140-160 days on account of change in the revenue mix of the company (with increase in percentage share of manufacturing segment over EPC segment) coupled with return in the normalcy of business operations after Covid-19 led disruptions. Moreover, the ratings continue to derive comfort from extensive experience of its promoters in the cable and conductors' industry with diversified product mix and reputed clientele with low counter party risk. 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 high working capital intensity of operations.

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 1.5x and improvement in debt protection metrics with interest coverage ratio to over 3x.
- 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.
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing to over 1 time.
- Significant elongation of collection period beyond Infomerics' expectation which may adversely impact the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Improvement in financial performance in FY22 and H1FY23 (provisional)**

CIL has witnessed improvement in its FY22 and H1FY23 (provisional) 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. 433.57 core in FY22 from Rs.366.46 crore in FY21 due to increase in revenue from both manufacturing division and EPC division. EBITDA improved to Rs. 40.32 crore in FY22 from Rs.36.63 crore in FY21. Though, EBIDTA margin declined marginally to 9.30% in FY22 from 9.99% in FY21 due to increase in operational and administrative overheads. However, PAT margin increased to 2.99% in FY22 from 2.89% in FY21 due to reduction in depreciation expenses and increase in non-operating expenses. GCA also improved to ~17% y-o-y from Rs.12.76 crore in FY21 to Rs.14.19 crore in FY22.

H1FY23 financials recorded considerable improvement in Total Operating Income to Rs.230.69 crore in H1FY23 as compared to Rs.161.42 crore in H1FY22, registering ~43% Y-o-Y growth. EBIDTA improved to 19.51 crore in H1FY23 from 12.97 crore in H1FY22 with the rise in total income. EBIDTA margin improved by 43 bps and PAT margin improved by 117 bps. GCA almost doubled to Rs.9.33 crore in H1FY23 from 4.91 crore in H1FY22. Infomerics expects improvement in the topline and profits, going forward, on account of a healthy order book position owing to thrust in demand from the cables and conductors' industry.

- **Improvement in the receivable cycle**

The receivable cycle of CIL improved to 203 days in FY22 from 273 days in FY21, elongation in receivable cycle remained largely on account of sizeable retention money in the EPC division that remained stuck. During FY2021, the receivables increased substantially due to delays witnessed in releasing payments owing to Covid 19 impact. However, the situation has improved off late, as the debtors have been seen on a declining trend due to recovery of considerable amount of retention money. In H1FY23 the receivable days further reduced to 120 days. Infomerics expects the collection period to remain range bound between 140-160 days on account of change in the revenue mix of the company (with increase in percentage share of manufacturing segment over EPC segment) coupled with return in the normalcy of business operations after Covid-19 led disruptions.

- **Improvement in the capital structure along with debt protection metrics in FY22 and H1FY23**

The capital structure of the company remained comfortable marked by debt equity ratio at 0.19x as on March 31, 2022 and overall gearing ratio at 0.83x as on March 31, 2022 [0.90x as on March 31,2021] (considering the adjusted TNW at Rs.147.15 crore after adjusting the loans extended by sister concerns aggregating to Rs.27.66 crore as quasi equity and excluding exposure to group companies). Total indebtedness of the company marked by TOL/TNW improved to 2.04x as on March 31, 2022 from TOL/TNW 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 1.79x in FY22 [1.60x in FY21] and Total debt to EBITDA at 3.03x as on March 31,2022 (3.28x as on March 31,2021). Driven by rise in EBITDA in H1FY23, interest coverage ratio improved to 2.65x during H1FY22 (1.93x during H1FY22). Overall gearing ratio and TOL/TNW also improved in H1FY23.

- **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 bring another Rs.5 crore in FY23 to meet working capital requirements arising out of execution of fresh orders.

- **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.345.60 crore [~80% of its total operating income in FY22] [~Rs.241 crore (~66% of TOI) in FY21]. 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.88.06 crore [~20% of its total operating income in FY22] [~Rs.126 crore (~34% of TOI) in FY21].

- **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 November 1, 2022 stood at around ~Rs.703 crore (~1.62 times of its FY22 operating income) comprising pending orders worth ~Rs.341 crore for the EPC division and ~Rs.362 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.

- **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

- **High working capital intensity of operations**

The operation of CIL remain capital intensive at 48% in FY22 though improved form 52% in FY21 largely on account of elongated payment cycle from its clients and sizeable retention money in the EPC division and high inventory holding period. 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. Also, the inventory period remains high in the EPC division as the finished products can be supplied only after due diligence and proper certification from the government department. The high working capital intensity is further reflected from utilization of its fund-based limit at ~93% during the 12 months ended September 2022. However, the company optimizes the working capital cycle by availing matching credit period from its creditors. Infomerics, however, expects improvement in the working capital intensity on reduction of operation from EPC segment with simultaneous improvement in the manufacturing segment.

- **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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity – Adequate

Adequate liquidity characterized by expected sufficient cushion in cash accruals which is expected in the range of Rs.21 crore to Rs.33 crore in the projected years FY23 to FY25 vis-à-vis its repayment obligations of about Rs.4.91 crore, Rs. 6.64 crore and Rs. 8.34 crore in FY23, FY24 and FY25 respectively. The current ratio also remained comfortable at 1.42x as on March 31, 2022. Further, the overall gearing also remained comfortable at 0.83x as on March 31, 2022 indicating adequate gearing headroom. However, fund based bank limits remained utilized at ~94% during the past 12 months ended September 2022 indicating a limited liquidity buffer. The non-fund-based utilisation remained moderate at ~73% during the last twelve months ended October 2022. The company free cash and bank balance as on March 31, 2022 remains at Rs.3.28 crore.

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	H1FY23
	Audited	Audited	Provisional
Total Income	366.46	433.57	230.69
EBIDTA	36.63	40.32	19.51
PAT	10.69	13.02	8.34
Total Debt	120.27	122.28	142.22
Tangible Net Worth	114.94	155.62	138.3
Adjusted Tangible Net Worth	134.06	147.15	-
EBDITA Margin (%)	9.99	9.30	8.46
PAT Margin (%)	2.89	2.99	3.62
Overall Gearing Ratio (x)	0.90	0.83	1.03

**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 2022-23 (July 11, 2022)	Date(s) & Rating(s) assigned in 2021-22 (September 24, 2021)	Date(s) & Rating(s) assigned in 2020-21	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	100.00	IVR A-/ Stable	IVR BBB+/ Positive	IVR BBB+ / Stable	-	IVR A- / Stable	IVR A- /Stable

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 2022-23 (July 11, 2022)	Date(s) & Rating(s) assigned in 2021-22 (September 24, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2020-21 (September 03, 2020)	Date(s) & Rating(s) assigned in 2019-20 (July 03, 2019)
2.	Proposed Cash Credit	Long Term	10.00	IVR A-/ Stable	IVR BBB+/ Positive	IVR BBB+ / Stable	-	IVR A- / Stable	IVR A- /Stable
3.	ILC/FLC	Short Term	56.00	IVR A2+	IVR A2	IVR A2	-	IVR A2+	IVR A2+
4.	Proposed ILC/FLC	Short Term	9.00	IVR A2+	IVR A2	IVR A2	-	IVR A2+	IVR A2+
5.	Bank Guarantee	Short Term	226.00	IVR A2+	IVR A2	IVR A2	-	IVR A2+	IVR A2+
6.	Proposed Bank Guarantee	Short Term	11.00	IVR A2+	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: Sandeep Khaitan Tel: (033)- 46022266 Email: Sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Limited (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.

Press Release

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 - 1	Long Term	-	-	40.00	IVR A-/ Stable
Cash Credit - 2	Long Term	-	-	24.75	IVR A-/ Stable
Cash Credit - 3	Long Term	-	-	5.00	IVR A-/ Stable
Cash Credit - 4	Long Term	-	-	10.00	IVR A-/ Stable
Overdraft	Long Term	-	-	20.25	IVR A-/ Stable
Proposed Cash Credit	Long Term	-	-	10.00	IVR A-/ Stable
ILC/FLC – 1	Short Term	-	-	33.00	IVR A2+
ILC/FLC - 2	Short Term	-	-	9.00	IVR A2+

ILC/FLC – 3	Short Term	-	-	4.00	IVR A2+
ILC/FLC - 4	Short Term	-	-	10.00	IVR A2+
Proposed ILC/FLC	Short Term	-	-	9.00	IVR A2+
Bank Guarantee – 1	Short Term	-	-	132.00	IVR A2+
Bank Guarantee – 2	Short Term	-	-	38.00	IVR A2+
Bank Guarantee – 3	Short Term	-	-	32.75*	IVR A2+
Bank Guarantee - 4	Short Term	-	-	23.25	IVR A2+
Proposed Bank Guarantee	Short Term	-	-	11.00	IVR A2+

**ILC of Rs. 20 crore, FLC, Trade credit BG of Rs. 70 crore is the sublimit of Bank Guarantee*

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-dec22.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.