Press Release

Cabcon India Limited

September 24, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	100.00 (Enhanced from Rs.90.00 crore and including proposed limit of Rs.10.00 crore)	IVR BBB+ / Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR A- / Stable (IVR Single A Minus with Stable Outlook)
Short Term Bank Facilities – ILC/FLC	75.00 (Enhanced from Rs.40.00 crore and including proposed limit of Rs.19.00 crore)	IVR A2 (IVR A Two)	Revised from IVR A2+ (IVR A Two Plus)
Short Term Bank Facilities – Bank Guarantee	237.00 (Enhanced from Rs.202.00 crore and including proposed limit of Rs.21.00 crore)	IVR A2 (IVR A Two)	Revised from IVR A2+ (IVR A Two Plus)
Total	**412.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Cabcon India Limited (CIL) is on account of moderation in financial performance leading to moderation in debt protection metrics in FY21 (Prov.) and delay in collection from debtors leading to weakening of liquidity position. However, the rating continues to derive strength from its long track record of operations under its experienced promoters, diversified product mix, partially integrated operations, reputed clientele with low counter-party payment risk and partially integrated operations of the group. The rating also factors in satisfactory capital structure marked by its satisfactory gearing ratios. Further, the ratings also note demonstrated support from the promoters through continuous infusion of funds and healthy order-book position indicating strong near to medium term revenue visibility. However, these 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.

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 3x and improvement in debt protection metrics
- 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.
- 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

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 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. 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 supported the business by infusing funds as required in the form of subordinated unsecured loans (Rs.27.87 crore outstanding as on March 31, 2021 [Prov.]) and have demonstrated positive commitments since inception. In FY20, the promoters have brought in fresh equity to the extent of Rs.5 crore. Further, in FY21, the promoters have brought in fresh capital to the extent of Rs.5 crore.

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.240.51 crore [~66% of its total operating income in FY21 (Prov.)] [Rs.266.62 crore (~57% 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.125.08 crore [~34% of its total operating income in FY21 (Prov.)] [Rs.204.38 crore (~43% 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. 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 reduces the counter party payment risk to a certain extent.

Healthy order book position

CIL's unexecuted order book position as on August 25, 2021 stood at around Rs.597.06 crore (~1.63 times of its FY21 (Prov.) operating income) comprising pending orders worth ~Rs.394.97 crore for the EPC division and ~Rs.202.09 crore from the manufacturing division. The orders for cables and conductors (manufacturing division) are expected to be executed over 8 to 12 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 of the group

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 profile marked by satisfactory gearing albeit moderation in debt protection metrics

The capital structure of the company remained comfortable with overall gearing ratio at 1.03x as on March 31, 2021 (Prov.) (1.05x as on March 31, 2020) considering unsecured loans amounting to Rs.27.36 crore as on March 31, 2021 (Prov.) extended by associate concerns/directors as neither debt nor equity and unsecured loan of Rs.0.84 crore as on March 31, 2021 (Prov.) from Directors as a part of adjusted net worth. In order to improve its capital structure and to reduce its overall leverage in the context of increasing scale of operations, the company had brought in fresh capital to the extent of Rs.5.00 crore in FY21 in the form of equity and preference shares. Due to decrease in overall profitability in FY21 (Prov.), interest coverage ratio moderated from 1.73x in FY20 to 1.65x in FY21 (Prov.). Total debt to GCA also moderated from 6.13x in FY20 to 8.60x in FY21 (Prov.). Total indebtedness of the company remained moderate with TOL/ANW of 2.90x as on March 31, 2021 (Prov.).

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

Moderation in financial performance in FY21 (Prov.)

The total operating income witnessed a y-o-y moderation from Rs.471.00 crore in FY20 to Rs.365.59 crore in FY21 (Prov.) due to decrease in revenue from both manufacturing as well as EPC division specially during the first quarter of FY21 owing to the outbreak of COVID 19 pandemic. While revenue from manufacturing division decreased from Rs.266.62 crore in FY20 to Rs.240.51 crore in FY21 (Prov.) due to slowdown in production in FY21, revenue from EPC division decreased from Rs.204.38 crore in FY20 to Rs.125.08 crore in FY21 (Prov.) due to delays in execution of contracts on account of lockdown restrictions arising out of COVID 19 pandemic and acute labour shortage thereafter.

Despite moderation in top line in FY21 (Prov.), EBITDA margin improved marginally from 9.55% in FY20 to 10.54% in FY21 (Prov.) due to decrease in operational and administrative overheads. However, due to decrease in absolute EBITDA from Rs.45.00 crore in FY20 to

Rs.38.52 crore in FY21 (Prov.), PBT margin and PAT margin moderated marginally from 4.43% and 3.23% respectively in FY20 to 4.27% and 3.17% respectively in FY21 (Prov.). GCA also moderated from Rs.17.56 crore in FY20 to Rs.14.03 crore in FY21 (Prov.).

During Q1FY22, CIL achieved a PBT of Rs.3.40 crore (Rs.2.48 crore during Q1FY21) on a TOI of Rs.77.02 crore (Rs.70.74 crore during Q1FY21).

Susceptibility of operating margin to fluctuations 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 and Vedanta. 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 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 profitability margins have remained range-bound 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. However, the company is getting regular payments from its clients which imparts some comfort. The high working capital intensity is further reflected from almost full utilization of its fund-based limits for the 12 months ended July 2021. 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 increased significantly from 101 days in FY20 to 151 days in FY21**.**

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing & Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

Adequate liquidity characterized by expected sufficient cushion in cash accruals vis-à-vis its repayment obligations of about Rs.5.64 crore in FY22 and Rs.5.65 crore in FY23. The current ratio also remained comfortable at 1.42x as on March 31, 2021 (Prov.). Further, the overall gearing also remained comfortable at 1.03x as on March 31, 2021 (Prov.) indicating adequate gearing headroom. However, bank limits are almost fully utilized during the past 12 months ended July 2021 indicating a limited buffer. The non-fund-based utilisation remained moderate at ~69% 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	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	471.00	365.59
Total Income	475.26	368.47
EBITDA	45.00	38.52
PAT	15.34	11.69
Total Debt	107.75	120.71
Adjusted Net worth	102.99	116.78
EBITDA Margin (%)	9.55	10.54
PAT Margin (%)	3.23	3.17
Overall Gearing Ratio (x)	1.05	1.03

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Press Release

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	100.00 (Enhanced from Rs.90.00 crore and including proposed limit of Rs.10.00 crore)	IVR BBB+ / Stable Outlook	IVR A- / Stable Outlook (September 03, 2020)	IVR A- / Stable Outlook (July 03, 2019)	-
2.	ILC/FLC	Short Term	75.00 (Enhanced from Rs.40.00 crore and including proposed limit of Rs.19.00 crore)	IVR A2	IVR A2+ (September 03, 2020)	IVR A2+ (July 03, 2019)	-
3.	Bank Guarantee	Short Term	237.00 (Enhanced from Rs.202.00 crore and including proposed limit of Rs.21.00 crore)	IVR A2	IVR A2+ (September 03, 2020)	IVR A2+ (July 03, 2019)	-

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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.

recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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 Bank Facilities – Cash Credit	-	-	-	100.00 (Enhanced from Rs.90.00 crore and including proposed limit of Rs.10.00 crore)	IVR BBB+ / Stable Outlook
Short Term Bank Facilities – ILC/FLC	-	-	-	75.00 (Enhanced from Rs.40.00 crore and including proposed limit of Rs.19.00 crore)	IVR A2
Short Term Bank Facilities – Bank Guarantee	-	-	-	237.00 (Enhanced from Rs.202.00 crore and including proposed limit of Rs.21.00 crore)	IVR A2

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Cabcon-India-lenders-24sep21.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	ILC/FLC	Simple
3.	Bank Guarantee	Simple

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.