Precision Wires India Limited

January 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	69.23 (reduced from 72.62)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	480.00 (reduced from 500.00)	**CARE A1 (A One)**	**Reaffirmed**
Total Facilities	**549.23 (Rupees Five hundred Forty Nine crore and Twenty Three lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Precision Wires India Limited (PWIL) continues to derive strength from experienced promoters, its well-established market position catering to reputed clientele in the copper winding wires industry, favourable financial risk profile, comfortable debt protection metrics and working capital management along with strong liquidity.

However, the rating strengths are tempered by moderation in scale of operations in FY20 which further moderated in H1FY21 due to pandemic impact, lower operating margins due to relatively low value addition in its products, prevalent competition in the copper winding wire industry from unorganized players, volatility in copper prices which company is unable to pass on completely as well as company's exposure to foreign exchange risk.

Rating Sensitivities

Positive Factors

- Substantial increase in scale of operations by 25% on a sustainable basis on account of sale of higher quantities of products.
- Continuous decline in total debt leading to improvement in overall gearing to below 0.50x on sustained basis.
- Decline in interest costs due to decline in total debt leading Increase in interest coverage above 8 times
- Increase in Tangible Networth to Rs.500 crore and above

Negative Factors

- Deterioration in PBILDT margin below 4%
- Increase in overall gearing above 1.00 times on a consistent basis on account of increase in total debt.
- Deterioration in total debt to gross cash accruals beyond 6 years

Detailed description of the key rating drivers

Key Rating Strengths

Well established and experienced promoters having rich experience in copper winding wire industry

PWIL, promoted by Mr. Mahendra Mehta, is into copper winding wire industry since 1989. Mr. Mahendra Mehta has over six decades of experience in copper winding wire industry. He along with his son Mr. Milan Mehta (Vice Chairman and Managing Director), who has been associated with PWIL since 1996, manage the overall operations of the company. Mr. Milan Mehta has over two decades of experience in managing technical and commercial aspects of company's operations. The day-to-day operations of the company are managed by a team of qualified and experienced professionals headed by Mr. Milan Mehta.

Established market position in copper winding wires industry catering to a reputed client base

PWIL continues to be leading player in the organized copper winding wires with a total installed capacity of 40,000 MTPA as on November 30, 2020. The company caters to various reputed Original Equipment Manufacturing (OEM) companies in India and abroad. By virtue of servicing these OEMs, the company has developed long term business relationship. These OEMs are majorly in power, auto, consumer durables, transformers and construction industries. PWIL also caters to retail/ replacement demand through its branches and agents. The company has depots at various places like Bangalore, Chennai and Noida to service its clients.

Favourable financial risk profile

PWIL has a favourable financial risk profile. The debt profile of PWIL consists majorly of Acceptances, Term loan and minimal Working capital borrowings. Overall gearing of the company improved to 0.67x as on March 31, 2020 as against 0.92x as on

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

March 31, 2019 owing to lower acceptances and repayment of term loan. The acceptances were lower as compared to March 31, 2019, mainly due to decline in copper prices in Q4FY20 and also due to outbreak of COVID where the company curtailed procuring of copper in March 2020 leading to decline in trade payables as compared to March 31, 2019. Total debt to gross cash accruals marginally improved from 4.36 years in FY19 to 4.05 years in FY20.
As of September 30, 2020, overall gearing increased to 0.80x due to higher acceptances. The acceptances are higher due to sharp increase in copper prices and also due to improvement in demand.

Comfortable debt protection metrics and working capital management
Interest coverage ratio of the company declined to 3.99 times in FY20 as compared to 5.47 times in FY19 on account of lower PBILDT as well as higher interest costs as compared to FY19. The company manages its working capital effectively as shown by its average fund-based utilisation of 15% during past 12 months. The company majorly utilises non-fund based facility for buying its raw materials.

Key Rating Weaknesses
Moderation in scale of operations and profitability in FY20; further impacted by pandemic in H1FY21
The scale of operations declined from Rs.1,758 crore in FY19 to Rs.1,529 crore in FY20; this was as expected due to subdued demand in power and automobile sector. Also, the operations were hit by pandemic in March 2020 which led to sharp decline in Q4FY20 revenue. The copper prices also declined during FY20 especially since start of Q4FY20 where the prices declined sharply due to imposition of lockdown across the world due to outbreak of COVID-19, this led to lower sales revenue in FY20 as compared to FY19.
Profitability margins also moderated during FY20 when compared to FY19 owing to decline in sales quantity/ revenue as well as higher power costs, employee costs and other fixed costs. Similarly, PAT margin also declined due to lower PBILDT, higher depreciation and finance costs. Finance costs were higher mainly due to interest on term loan and hedging costs.
Performance in Q1FY21 was severely impacted owing to lockdown restrictions across the country where the factory operations remained shut in April. However, operations restarted in May, but it remained muted in both May and June due to continuation of lockdown in many parts of the country and other COVID restrictions. The company reported revenue of Rs.153 crore in Q1FY21 as against Rs.427 crore in Q1FY20. Also, company incurred net loss of Rs.1 crore during the first quarter. In Q2FY21, with easing of lockdown restrictions, increase in demand and sharp increase in copper prices, the company reported revenue of Rs.393 crore in Q2FY21 as against Rs.369 crore in Q2FY20 and PAT of Rs.10 crore as against Rs.8 crore.
Going forward, overall performance in terms of revenue in FY21 is expected to be similar to that of FY20 mainly due to price rise. However, in terms of quantity sold it would be lower due to Q1FY21 lockdown where sales declined by 65% as compared to corresponding quarter last year.

Relatively low value added products coupled with prevalent competition in copper winding wire industry from unorganized players
PWIL is into business of conversion of copper into winding wires. These winding wires are basic component in supply chain of manufacturing of electrical goods. By virtue of relatively low value addition of winding wires, the PBILDT margins of the company ranges between 4-6%. There are a large number of players in the industry including many in SSI sector; due to which there is competition prevalent in the industry. However, the company's long standing relationship with OEM customers mitigates this risk to a great extent.

Exposure to volatility of copper prices and foreign exchange rates
Major raw material used in manufacturing is copper, which forms around 85% of total operating cost for the company. Around 85% of company's raw material requirement is met indigenously and balance through imports. PWIL books raw material requirement on receipt of confirmed orders only. The company procures copper in back-to-back arrangement with suppliers against confirmed orders thereby, mitigating volatility of raw material prices as well as foreign exchange to large extent.
The company also derives part of its total sales from export, thereby exposing company's operational performance to foreign exchange rate fluctuations. The company's imports are much higher than the exports. This works as a natural hedge to an extent. However, to manage the forex fluctuation risk, PWIL hedges the balance using forward contracts.

Liquidity: Strong – PWIL has a strong liquidity supported by cash and bank balance of Rs.22.76 crore as on September 30, 2020; also company has liquid investments of Rs.23.50 crore. The company's average fund-based working capital utilisation during past 12 months is low at 15%. The company has term loan repayment of Rs.4.50 crore each in next three years which is low as compared to envisaged cash accruals. Also, the company does not have any major capex in FY21, the maintenance capex would be funded by internal accruals only. The company did not avail any moratorium from any of its banks.

Analytical approach: Standalone

Applicable Criteria:
CARE's criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's policy on Default Recognition
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies
Liquidity Analysis of Non-financial sector entities

About the Company
Precision Wires India Limited (PWIL), incorporated in 1989, manufactures copper winding wires, continuously transposed conductors (CTC) and paper insulated copper conductors (PICC) which are used in manufacturing of rotating as well as static electrical equipments. PWIL has a manufacturing facility located at Silvassa, Dadra Nagar Haveli and Palej, Gujarat with a total installed capacity of 40,000 metric tonne per annum (MTPA) as on November 30, 2020. PWIL is a leading player in the organized copper winding wires in India. The company caters to various industries like power, auto, consumer durables, transformers, construction etc.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	1,758.51	1,529.06
PBILDT	93.64	75.95
PAT	41.83	31.83
Overall Gearing (times)	0.89	0.67
Interest coverage (times)	5.47	3.99

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	480.00	CARE A1
Fund-based - LT-Term Loan	-	-	March 2024	14.23	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	480.00	CARE A1	-	1)CARE A1 (27-Dec-19)	1)CARE A1 (05-Oct-18)	1)CARE A1 (01-Mar-18)
2.	Fund-based - LT-Term Loan	LT	14.23	CARE A; Stable	-	1)CARE A; Stable (27-Dec-19)	1)CARE A; Stable (05-Oct-18)	1)CARE A; Stable (01-Mar-18)
3.	Fund-based - LT-Cash Credit	LT	35.00	CARE A; Stable	-	1)CARE A; Stable (27-Dec-19)	1)CARE A; Stable (05-Oct-18)	1)CARE A; Stable (01-Mar-18)
4.	Fund-based - LT-Cash Credit	LT	20.00	CARE A; Stable	-	1)CARE A; Stable (27-Dec-19)	1)CARE A1 (05-Oct-18)	1)CARE A1 (01-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instruments - NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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