Cords Cable Industries Limited

October 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	15.63	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long term Bank Facilities	46.00 (Reduced from 71.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long term/Short term Bank Facilities	141.00 (Reduced from 161.00)	CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable / A Three)	Reaffirmed
Short term Bank Facilities	50.50 (Enhanced from 10.50)	CARE A3 (A Three)	Reaffirmed
Total Facilities	253.13 (Rupees two hundred and fifty-three crore and thirty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Cords Cable Industries Limited (CCIL) continue to derive strength from the experience of the promoter in the cable industry, CCIL's long track record of operations and its established position in the control and instrumentation cables market coupled with a diversified and reputed client base and an increasing focus on diverse sectors. The ratings also takes into consideration, moderation in scale of operating during Q1FY21 (refers to the period from April 1 to June 30) due to lockdown imposed to curb the spread of Covid-19, working capital intensive nature of operations and susceptibility of margins to volatility in raw material prices.

Rating Sensitivities

Positive Factors

- Improvement in PBILDT margin above 10.50% on sustained basis.
- Overall gearing below 0.70x on a sustained basis.

Negative Factors

- Decline in PBILDT margin below 7%.
- Deterioration in overall gearing above 1.20x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with long track-record of operations in the cable industry: Mr. Naveen Sawhney, promoter and MD of CCIL, has been associated with the cable industry for over four decades with extensive experience in the manufacturing of cables. He holds a post graduate diploma in management. Further, CCIL has been engaged in the business of manufacturing of cables since 1991 and over the years has expanded capacities and increased its product portfolio. The company started with setting-up its facility in Chopanki, Rajasthan and in FY12 (refers to the period from April 1 to March 31), the company set-up a second manufacturing unit in Kaharani, Rajasthan, with an aggregate installed capacity of 65,000 km across different product-lines.

Diversified and reputed clientele base: CCIL is an approved supplier for several PSUs/private sector companies from oil sector and is also an approved vendor for the supply of cables to hydrocarbon refineries (under Bharat VI compliance). With diversified clientele across sectors including hydrocarbons, automobile, cement, power, freight corridors. CCIL has a low customer concentration risk as the top 5 customers contributed around 24% (PY: 33%) of net sales in FY20.

Rising demand in market for control & instrumentation cables segment: Department of Economic Affairs, Ministry of Finance (Government of India) released National Infrastructure Pipeline in April, 2020. The NIP was introduced with a

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

vision to spend Rs. 111 trillion on infra over the five year between FY20-25. The highest investment under NIP will be executed in FY21 & FY22 thereby boosting demand for cables across sectors. The highest capital expenditure under NIP will be in power and renewable energy segment. Further, during FY20, the company got registered as an approved vendor with one of the Japanese Engineering and consultancy & contracting major for supply of different types of cables.

Moderate financial risk profile: Overall gearing of CCIL improved to 0.84 as on March 31, 2020 against 0.96x as on March 31, 2019. The improvement is on account of accretion of profits to reserve and scheduled repayment of debt. Further, total debt to GCA of the company also improved to 8.29x during FY20 from 9.48x during FY19. The interest coverage ratio of the company moderated marginally to 1.80x during FY20 (PY: 1.87x), due to marginal increase in the interest cost in FY20.

Key Rating Weaknesses:
Moderation in the operating performance in Q1FY21: CCIL has reported low total operating income of Rs. 49.50 crore for Q1FY21 (Q1FY20: Rs. 110.51 crore) owing to the lockdown imposed by the Central Government to curb the spread of Covid-19. However, the PBILDT margin of the company improved to 11.48% during Q1FY21 (Q1FY20: 9.32%), the improvement is mainly due to execution of only high margin orders due to availability of limited manufacturing capacity as per the government regulations to curb the spread of Covid-19.
During FY20, the total operating income of the company stood at Rs. 422.26 crore (PY: Rs. 418.44 crore). PBILDT margin of the company grew from 8.72% in FY19 to 9.35% in FY20; the improvement was mainly due to higher contribution from highly profitable hydrocarbon segment in the total revenue of the company in FY20.

Working capital intensive nature of operations: CCIL's operations are working capital intensive in nature. The company buys the bulk of raw materials (Copper, PVC, GI Wire, etc.) from spot markets where the payment is required to be backed by inland LC of 120-150 days. CCIL extends credit period of around 60 to 90 days to its customers, the same is reflected in average collection period of 87 days during FY20 (PY: 79 days).

Susceptibility of margins to volatility in raw material prices: The raw material cost constituted ~86.2% of the total cost of sales during FY20 (PY: 89.85%). The major raw materials used by CCIL include Copper, PVC, G.I. wire etc. A major portion of copper is procured from Vedanta (~67%) and the rest from Hindalco and Trafigura. The company arrives at the bidding price for a contract based on the average monthly LME price and therefore the price fluctuations of copper is incorporated in the contract price. After getting the order, copper is billed to the company at the spot price, however at month end, the average rate during the month is charged to the company and the net effect of the billing rate and the average rate is settled.

Prospects
The growing energy demand in India propelled by sustained economic growth and urbanization has also bolstered the renewable energy development sector. With this, the need for strengthening of transmission and distribution sector has accentuated to reduce transmission losses. The government's focus on power for all, rural electrification and improving infrastructure has increased the demand for cables and wires. The prospects of the company shall be governed by its ability to garner fresh orders in oil and gas segment with relatively higher profit margin on a consistent basis without any adverse impact on the capital structure of the company.

Liquidity: Adequate
Operating cycle of the company deteriorated marginally to 74 days as on March 31, 2020 (PY: 70 days) mainly on account of elongation in the collection period due to outbreak of Covid-19. The average fund based limit utilization of the company stood moderate at ~81% for the trailing eleven months ending July, 2020. Free cash balance as on March 31, 2020 stood at Rs. 0.17 crore (PY: 0.34 crore). CCIL has modest debt repayment of obligation of Rs. 2.12 crore in FY21 against expected cash accruals of ~Rs. 15.30 crore in FY21. The company currently have no plans for any major capital expenditure. The company has not requested for moratorium from its bankers, however, moratorium is extended by RIICO (Rajasthan State Industrial Development & Investment Corporation Limited) for the payments of instalments on the term loan from May, 2020 to November, 2020.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning "Outlook" and "credit watch" to Credit Ratings
CARE's Policy on Default Recognition

[Rating Methodology-Manufacturing Companies]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Rating Methodology- Liquidity Analysis of Non-Financial Sector Entities]

About the Company

CCIL was incorporated in October 1991 as 'Cords Cable Industries Private Limited' and was later converted into 'Public Limited' on May 10, 2006. The company is engaged in the manufacturing of cables which find application across industries viz, power, hydrocarbons, fertilizers, metal & cement, fertilizers amongst others. The product range of the company includes instrumentation cables, control cables (upto 1.10 KV) and low tension (LT) power cables (upto 1.10 KV). CCIL has two manufacturing facilities located in Bhiwadi, Rajasthan with total installed capacity of 65,000 (Kaharani: 35,000 km set-up in 2011 with capacity almost fully utilized and Chopanki; 30,000 km set-up in 2002) as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	418.44	422.26
PBILDT	36.50	39.49
PAT	7.35	10.67
Overall gearing (times)	0.94	0.86
Interest coverage (times)	1.87	1.80

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	46.00	CARE BBB; Stable
Fund-based - ST-Factoring/ Forfeiting	-	-	-	50.50	CARE A3
Non-fund-based - LT/ ST-BG/LC	-	-	-	141.00	CARE BBB; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	November 15, 2023	15.63	CARE BBB; 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.	Fund-based-Long Term	LT	46.00	CARE BBB; Stable	-	1)CARE BBB; Stable (25-Feb-20)	1)CARE BBB; Stable (28-Dec-18)	1)CARE BBB; Stable (12-Sep-17)
2.	Fund-based - ST-Factoring/ Forfeiting	ST	50.50	CARE A3	-	1)CARE A3 (25-Feb-20)	1)CARE A3 (28-Dec-18)	1)CARE A3 (12-Sep-17)
3.	Fund-based-LT/ST	-	-	-	-	-	1)CARE BBB; Stable / CARE A3 (28-Dec-18)	1)CARE BBB; Stable / CARE A3 (12-Sep-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	141.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (25-Feb-20)	1)CARE BBB; Stable / CARE A3 (28-Dec-18)	1)CARE BBB; Stable / CARE A3 (12-Sep-17)
5.	Non-fund-based - ST-BG/LC	-	-	-	-	-	1)CARE A3 (28-Dec-18)	1)CARE A3 (12-Sep-17)
6.	Fund-based - LT-Term Loan	LT	15.63	CARE BBB; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	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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