

## Precision Wires India Limited <sup>(Revised)</sup>

February 07, 2022

### Ratings

| Facilities                 | Amount<br>(Rs. crore)  | Rating <sup>1</sup>                                  | Rating Action                              |
|----------------------------|--|--|--|
| Long-term Bank Facilities  | 79.73<br>(enhanced from 65.87)   | CARE A; Positive<br>(Single A;<br>Outlook: Positive) | Reaffirmed; Outlook<br>revised from Stable |
| Short-term Bank Facilities | 675.00<br>(enhanced from 565.00)   | CARE A1<br>(A One)                                   | Reaffirmed                                 |
| <b>Total Facilities</b>    | <b>754.73</b><br><b>(Rs. Seven Hundred Fifty Four crore and<br/>Seventy three lakh only)</b> |  |  |

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 the experienced promoters and its well-established market position catering to reputed clientele in the copper winding wires industry. The ratings also continue to factor in favourable financial risk profile of the company marked by comfortable debt protection metrics, efficient working capital management and strong liquidity position.

However, the rating strengths are tempered by lower operating margins due to relatively low value addition in its products and prevalent competition in the copper winding wire industry from unorganized players. While volatility in copper prices is completely passed on the industry requires relatively higher working capital requirements.

### Rating Sensitivities

#### Positive Factors

- Increase in total operating income to Rs.2,400 crore and absolute PBILDT to around Rs.100 crore on a sustained basis.
- Improvement in overall gearing to below 1x on a sustained basis.
- Sustained improvement in interest coverage above 5 times

#### Negative Factors

- Increase in overall gearing above 1.25x on a consistent basis on account of increase in total debt.
- Deterioration of Total Debt/ EBITDA above 5x

### Outlook: Positive

The positive outlook on the long-term ratings of PWIL reflects CARE's expectation of further growth in scale of operations as well as improvement in profits in absolute terms, leading to improved returns ratios and also strong liquidity position of the company. The outlook may be revised to 'Stable' if the company is unable to achieve the envisaged revenue and profits and also if the debt coverage ratio further worsens from the current levels.

### 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 39,400 MTPA as on September 30, 2021. The company caters to various reputed Original Equipment Manufacturing (OEM) companies in India and globally. By virtue of servicing these OEMs, the company has developed long-term business relationship. These OEMs are

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

majorly in power, auto, consumer durables, transformers, construction industries. PWIL also caters to retail/ replacement demand through its branches and agents. The company has depots in Bangalore, Chennai and Noida to service its clients. Few of its major clients are Bharat Heavy Electricals Limited, Valeo India Private Limited, ABB Limited, Bosch, Siemens, Cummins, etc.

***Increase in scale of operations as well as improvement in profitability***

The scale of operations of PWIL registered growth of 13% during FY21 from FY19 i.e. scale of operations increased from Rs.1,529 crore in FY20 to Rs.1,722 crore in FY21. This increase was on account of continuous increase in copper prices during the year. With better copper prices average sales realisation also increased from Rs.4.78 lakh/ MT in FY20 to Rs.5.98 lakh/ MT for round wire whereas for PICC and CTC it increased from Rs.5.08 lakh/MT and Rs.5.44 lakh/ MT to Rs.5.87 lakh/ MT and Rs.6.18 lakh/ MT respectively. The capacity utilisation stood at 70% during the year. PBILDT margins slightly moderated during FY21 i.e. it decreased from 4.97% in FY20 to 4.78% in FY21 owing to higher copper prices, which increased the cost of production.

The company reported strong performance in 9MFY22 as compared to 9MFY21, as first quarter of FY21 was severely impacted due to first wave of covid. However, with easing of restrictions, the demand improved, and company was able to report improved performance in Q2FY21. Similarly, during Q1FY22, there was second wave of pandemic, but it did not hit the operations unlike Q1FY21.

***Favourable financial risk profile***

PWIL continues to have favourable financial risk profile. The debt profile of PWIL consists of majorly Acceptances, Term loan and minimal Working capital borrowings. Overall gearing of the company moderated to 1.17x as on March 31, 2021 from 0.67x as on March 31, 2020. This is mainly due to higher acceptances owing to continuous increase in copper prices during the year. Due to higher acceptances, Total debt to gross cash accruals moderated to 6.71 years in FY21 from 4.05 years in FY20. The copper prices continue to be high thus leading to higher overall gearing of 1.12x as on September 30, 2021.

Further, as on March 31, 2022, overall gearing is expected to be moderated as the copper prices are expected to be in similar range as well as fund-based limits are assumed to be fully utilised. The company does not plan any major capex in FY22; however, in FY23 it plans to increase its production capacity to around 44,000 MT, which would cost around Rs.30 crore that will be funded through a term loan of Rs.15 crore and remaining through internal accruals. Meanwhile, the company would repay the current term loan, thus leverage would be in similar range.

***Favourable debt protection metrics; comfortable working capital management***

Interest coverage ratio of the company sharply improved to 5.44 times in FY21 as compared to 3.99 times in FY20 owing to higher PBILDT generated as well as lower interest cost incurred by the company. The company during FY21 had efficiently collected its receivables, which reduced its dependence on fund-based limit utilisation. The average utilisation stood at around 13% only for the past 12 months ended October 2021.

The company procures inventory only when it has a confirmed order, thus it is cautious in maintaining inventory. The receivables have remained in similar range as the company is collecting the same effectively. Also, borrowing requirement is less, as company sells its goods on LC basis to Power sector clients and few of automobile sector clients. Thus, providing liquidity comfort to a large extent. The company majorly utilises non-fund based facility for buying its raw materials.

**Key Rating Weaknesses**

***Relatively low value adding products coupled with prevalent competition in copper winding wire industry from unorganized players***

Precision Wires India Limited (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% as company is a mere converter and charges conversion charges from its clientele which are majorly fix depending on the customer. The increase in prices of its major raw material hurts the margins as the conversion charges are fixed and also the company cannot easily increase the same due to intense competition in the industry from unorganized segment.

***Exposure to volatility of copper prices and foreign exchange rates***

Major raw material used in manufacturing is copper, which forms around 90% 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 i.e. the customer prices the copper with PWIL on an unknown basis and PWIL does the same with its suppliers thereby, mitigating full volatility of raw material prices as well as foreign exchange to a larger extent.

The company also derives part of its total sales from export which is less than 10%, thereby exposing company's operational performance to foreign exchange rate fluctuations. However, to manage the forex fluctuation risk, PWIL hedges the balance using forward contracts.

#### Liquidity: Strong

PWIL has a strong liquidity supported by free cash and cash equivalents of around Rs.70 crore as on December 31, 2021. The company's average fund-based working capital utilisation stood at 13% only during past 12 months ended October 2021. The company has term loan repayment of Rs.4.50 crore each in next two years, which is very low as compared to envisaged cash accruals. Also, the company does not have any major capex plans in the current year apart from the maintenance capex which would be funded through internal accruals only.

#### Analytical approach: Standalone

#### Applicable Criteria

[CARE's criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[Criteria 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 39,400 metric tonne per annum (MTPA) as on September 30, 2021. 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) | 31-03-2020 (A) | 31-03-2021 (A) | 9MFY22 (P) |
|------------------------------|----------------|----------------|------------|
| Total operating income       | 1,529.06       | 1,721.73       | 1,945.51   |
| PBILD                        | 75.94          | 82.37          | 88.94      |
| PAT                          | 31.82          | 39.31          | 44.71      |
| Overall gearing (times)      | 0.67           | 1.17           | 1.19       |
| Interest coverage (times)    | 3.99           | 5.44           | 5.14       |

A: Audited; P: Provisional

#### Status of non-cooperation with previous CRA: Not Applicable

#### Any other information: Not Applicable

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

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

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

#### Annexure-1: Details of Facilities

| Name of the Instrument      | ISIN | 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   | -    | -                | -           | -             | 675.00                        | CARE A1                                   |
| Fund-based - LT-Term Loan   | -    | -                | -           | Mar 24        | 24.73                         | CARE A; Positive                          |
| Fund-based - LT-Cash Credit | -    | -                | -           | -             | 35.00                         | CARE A; Positive                          |

| Name of the Instrument      | ISIN | 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   | -    | -                | -           | -             | 675.00                        | CARE A1                                   |
| Fund-based - LT-Cash Credit | -    | -                | -           | -             | 20.00                         | CARE A; Positive                          |

#### 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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1       | Non-fund-based - ST-BG/LC              | ST              | 675.00                         | CARE A1          | 1)CARE A1 (06-Aug-21)                     | 1)CARE A1 (04-Jan-21)                     | 1)CARE A1 (27-Dec-19)                     | 1)CARE A1 (05-Oct-18)                     |
| 2       | Fund-based - LT-Term Loan              | LT              | 24.73                          | CARE A; Positive | 1)CARE A; Stable (06-Aug-21)              | 1)CARE A; Stable (04-Jan-21)              | 1)CARE A; Stable (27-Dec-19)              | 1)CARE A; Stable (05-Oct-18)              |
| 3       | Fund-based - LT-Cash Credit            | LT              | 35.00                          | CARE A; Positive | 1)CARE A; Stable (06-Aug-21)              | 1)CARE A; Stable (04-Jan-21)              | 1)CARE A; Stable (27-Dec-19)              | 1)CARE A; Stable (05-Oct-18)              |
| 4       | Fund-based - LT-Cash Credit            | LT              | 20.00                          | CARE A; Positive | 1)CARE A; Stable (06-Aug-21)              | 1)CARE A; Stable (04-Jan-21)              | 1)CARE A; Stable (27-Dec-19)              | 1)CARE A1 (05-Oct-18)                     |

#### Annexure-3: Detailed explanation of covenants of the rated facilities

| Name of the Instrument                                   | Detailed explanation |
|--|----------------------|
| <b>A. Financial covenants</b>                            |                      |
| I TOL/TNW shall not exceed 2x                            | -                    |
| II Total promoters shareholding shall not fall below 51% | -                    |
| <b>B. Non-financial covenants</b>                        | NA                   |

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

| Sr. No | Name of 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           |

#### Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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

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