Precision Wires India Limited

March 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	146.86 (Enhanced from 94.73)	CARE A+; Stable	Revised from CARE A; Positive
Short-term bank facilities	638.50 (Reduced from 660.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in long-term rating and the reaffirmation of the short-term rating assigned to bank facilities of Precision Wires India Limited (PWIL or the company) factors the steady improvement in its scale of operations and sustenance of profits. Past positive rating sensitivities relating to the improving absolute total operating income (TOI) above ₹2,400 crore and absolute profit before interest, lease rentals, depreciation and tax (PBILDT) above ₹100 crore have been triggered on a sustained basis.

Going ahead as well, CARE Ratings Limited (CARE Ratings) expects sustenance in growth, owing to further increase in capacity by the company. The existing capacity is expected to increase from 39,400 tonnes per annum (TPA) to around 49,000 TPA by March 31, 2024, with near completion of the ongoing expansionary capital expenditure (capex).

The ratings continue to factor the established market position and long track record of the company in the copper winding wires industry, which enables it to procure repeat orders from reputable client base, which also has relatively lower counter-party credit risk.

Historically, over the past two decades, the company has consistently demonstrated strong adeptness to the changing business dynamics and has reported continuous growth in revenues and profitability despite fluctuations in commodity prices. Resultantly, the company has delivered return on capital employed (ROCE) above 25% over the last five years (barring FY20 and FY21 wherein the ROCE dipped to around 20% during the COVID-19 period).

For fiscal FY23 (FY refers to the period April 01 to March 31), the net sales have improved at 12.6% YoY primarily on the back of volume growth which was 12.8% for the finished goods. As a result of low value addition in the winding wires industry, the company's PBIDLT margins remain in the range of 4% to 6%. The company is a converter where it receives fixed conversion charges from its consumers. Despite volume growth, the copper prices were highly volatile, which will impact the margins in percentage terms, however, the conversion charges remain more or less fixed in nature. Additionally, back-to-back order mechanism helps in partly mitigating the commodity price risk. Stabilization of copper prices in FY24, have helped the company to improve PBILDT margins to 4.5% in 9MFY24. Order-book of around 3,800 MTPA as on January 23, 2024, provides medium-term revenue visibility.

The financial risk profile of the company continues to remain favourable marked by strong liquidity position and comfortable debt coverage metrics. Overall gearing (including acceptances) of the company was 0.93x, while debt to equity ratio remains strong at 0.04x as on March 31, 2023. Even considering the additional term loan of ₹35 crore which has been majorly drawn in FY24 for capex activity; the debt-to-equity ratio is expected to remain quite strong. The overall gearing is higher due to high usage of letter of credit (LC) acceptances. The company continues to maintain strong liquidity position, which is supported by cash and liquid investments of ₹43.84 crore as on September 30, 2023 (₹78.26 crore as on March 31, 2023).

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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to lead to positive rating action

- Improving overall gearing to below 0.50x on a sustained basis.
- Improving Total Debt/PBILDT to below 1x on a sustained basis.

Negative factors- Factors likely to lead to negative rating action

- Increase in overall gearing above 1.25x on a consistent basis on account of increase in total debt.
- Deterioration of Total Debt/PBILDT above 3.5x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The business performance is expected to be stable given long-standing customer relationships and growth expected from addition of new capacity. The financial risk profile of the company remains strong as the term debt repayments can be comfortably met through internal accruals.

Detailed description of the key rating drivers:

Key strengths

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

PWIL, promoted by Mahendra Mehta, is into copper winding wire industry since 1989. Mahendra Mehta has over six decades of experience in the copper winding wire industry. He along with his son Milan Mehta (Vice Chairman and Managing Director), who has been associated with PWIL since 1996, manage the overall operations of the company. Milan Mehta has over three decades of experience in managing technical and commercial aspects of the company's operations. The daily operations of the company are managed by a team of qualified and experienced professionals headed by 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 industry with a total installed capacity of 39,400 Metric Tonnes Per Annum (MTPA) as on March 31, 2023 and is expected to reach around 49,000 MTPA as on March 31, 2024 due to near completion of expansionary capex. 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 majorly in power, auto, consumer durables, transformers and construction industries, among others. PWIL also caters to retail/ replacement demand through its branches and agents. Few of its major clients are, CG Power and Industrial Solutions Limited, Lucas TVS Ltd, Highly Electrical Appliances Ltd and Mitsuba India Private Limited, among others.

Sustained profitability levels alongside revenue growth

For FY23, net sales have improved at 12.6% YoY, primarily on the back of volume growth which was 12.8% for the finished goods. As a result of low value addition in the winding wires industry, the company's PBIDLT margins remain in the range of 4% to 6%. The company is a converter where it receives fixed conversion charges from its consumers. Tolling margins have improved from ₹60,000 per tonne in FY22 to ₹78,000 per tonne for FY23. Stabilization of copper prices in FY24, have helped the company to improve PBILDT margins to 4.5% in 9MFY24. Order-book of around 3,800 MTPA as on January 23, 2024, provides medium-term revenue visibility. Orders are generally booked on back-to-back basis.

Favourable financial risk profile

PWIL continues to have favourable financial risk profile. The debt profile of the company consists of working capital borrowings and term loan. The overall gearing (including the acceptances) of the company was 0.93x for FY23, while debt to equity ratio was very strong at 0.04x as on Mar 31, 2023. Even considering the additional term loan of ₹35 crore which has been majorly drawn in FY24; the debt-to-equity ratio is expected to remain quite strong. This is due to strong net worth of ₹ 450.26 crore. The higher LC-backed acceptances have constrained the overall gearing to current levels. As per the company management, the channel financing is done by the company to reputable customers, where there is no recourse on the company.

Favourable debt protection metrics

The interest coverage ratio of the company though declined remained strong at 3.73x in FY23 (against 4.97x in FY22) on account of increase in interest on bank borrowings. The company has efficiently collected its receivables, which reduced its dependence on fund-based utilisations. The average utilisations stood below 10% for the past 12 months ended December 2023.

The company procures inventory only when it has a confirmed order from its customer, thereby maintaining an extremely cautious approach. However, the inventories held by PWIL have remained almost flattish at ₹227.3 crore in FY23 as against ₹ 221.8 crore in FY22. The company majorly uses non-fund-based facility for buying its raw materials. The trade receivables of the company showed similar trends for FY22 (₹476.50 crore), FY23 (₹459.35 crore) and H1FY24 (₹429.18 crore). The working capital requirement is expected to increase modestly due to increase in the installed capacity in FY24.

Key weaknesses

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

PWIL is primarily in the business of conversion of copper into winding wires. These wires are basic components in the supply chain for manufacturing of various static and rotating electronic goods. As a result of low value addition in the winding wires industry, the company's PBIDLT margins remain in the range of 4% to 6%. The company is merely a converter where it charges fixed conversion charges to its consumers. The increase in prices of its major raw material directly affects the company's margins. Additionally, the sector is heavily fragmented with many small and medium players in the market which adds intense competition in the industry. The company's long-standing relationships with its OEM customers mitigates the risk to a larger extent. Therefore, in the event of high price, the margins would be low and vice-a-versa.

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 85-90% of the 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. 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.

The company also derives part of its total sales from export which is around 10%, thereby exposing its operational performance to foreign exchange rate fluctuations. However, the company is able to partly mitigate this risk by various natural hedging mechanisms.

Higher working capital requirements

The debt profile of the company consists of working capital borrowings and term loan. The company uses LC for procurement of raw materials resulting in overall gearing (including the acceptances) of the company at 0.93x in FY23. LC usage is expected to increase modestly with the increase in the operational capacity.

Liquidity: Strong

PWIL has a strong liquidity supported by cash and liquid investments of ₹43.84 crore as on September 30, 2023 and ₹78.26 crore as on March 31, 2023. The company's average fund-based utilization stood at 9.34% in the past 12 months ending December 2023, providing sufficient cushion in terms of contingent liquidity requirements if any. The company has been in the last stages of completion of capex of ₹70 crore to increase the capacities, being 50% funded by debt.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	**GHG emissions and renewables:** Enameling machines are equipped with catalytic combustion and heat recirculation Systems, which result in reduction of Green House Gas Emissions. The company has installed approximately 775KW solar power capacity and has invested ₹2.75 crore towards energy conservation equipment. **Energy consumption:** Electricity consumption was ₹32 crore while fuel consumption was ₹0.9 crore for FY23. Energy intensity per turnover was ₹0.01 per rupee of turnover.
Social	**Safety standards** 83% of employees are trained on safety measures and skill upgradation in FY23. Indicators like lost time injury frequency rate (LTIFR) were not disclosed.
Governance	**Board independence:** 50% of the board comprises of non-executive and independent directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Non Ferrous Metal
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Cables - Electricals

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 equipment. 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 March 31, 2023. PWIL is a leading player in the organized copper winding wires in India. The company caters to various industries like power, auto, consumer durables and transformers, construction, among others.

Brief Financials (₹ crore)	FY2022 (A)	FY2023 (A)	9MFY24 (UA)
Total operating income	2,688.07	3,049.69	2437.00
PBILDT	123.85	122.58	110.10
PAT	63.01	59.49	50.94
Overall gearing (times)	1.23	0.93	-
Interest coverage (times)	4.97	3.73	3.94

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	91.50	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE A+; Stable
Fund-based - LT-Term Loan*		-	-	01-04-2028	35.36	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	638.50	CARE A1

*Outstanding as on January 23, 2024. Note: Withdrawal of non-fund limits of Rs. 65 crores from Federal bank has been done basis no due certificate.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	638.50	CARE A1	-	1)CARE A1 (05-Jan-23)	1)CARE A1 (07-Feb-22) 2)CARE A1 (06-Aug-21)	1)CARE A1 (04-Jan-21)
2	Fund-based - LT-Term Loan	LT	35.36	CARE A+; Stable	-	1)CARE A; Positive (05-Jan-23)	1)CARE A; Positive (07-Feb-22) 2)CARE A; Stable	1)CARE A; Stable (04-Jan-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
							(06-Aug-21)	
3	Fund-based - LT-Cash Credit	LT	91.50	CARE A+; Stable	-	1)CARE A; Positive (05-Jan-23)	1)CARE A; Positive (07-Feb-22) 2)CARE A; Stable (06-Aug-21)	1)CARE A; Stable (04-Jan-21)
4	Fund-based - LT-Cash Credit	LT	20.00	CARE A+; Stable	-	1)CARE A; Positive (05-Jan-23)	1)CARE A; Positive (07-Feb-22) 2)CARE A; Stable (06-Aug-21)	1)CARE A; Stable (04-Jan-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated- Not applicable.

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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