

Cords Cable Industries Limited

September 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long Term Bank Facilities	46.00	CARE BBB; Stable (Triple B)	Revised from CARE BBB-;Stable (Triple B Minus: Outlook:Stable)
Short Term Bank Facilities	20.25	CARE A3 (A Three)	Reaffirmed
Long term/ Short term Bank Facilities	152.00	CARE BBB; Stable/ CARE A3 (Triple B/ A Three)	Revised from CARE BBB- ;Stable/CARE A3 (Triple B Minus: Outlook:Stable/A Three)
Total	218.25 (Rs. Two Hundred Eighteen Crore and Twenty Five Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings takes into account consistent improvement in financial risk profile of the company marked by increase in total operating income, stable margins and improvement in gearing levels coupled with strong demand drivers for control & instrumentation cables. The ratings further takes into cognisance the experienced promoter, established position in the control and instrumentation cables segment, diversified and reputed clientele base with focus on niche sectors.

The ratings, however are constrained due to the moderate scale, working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices and competition.

Going forward, the ability of the company to increase its scale of operations, improve its profitability margins and operational performance as well as effectively manage its working capital cycle would be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key rating Strengths

Improvement in financial risk profile with increase in sales & profitability levels & consistent improvement in gearing level

During FY17, CCIL reported total operating income of Rs.325.95 crore as against total operating income of Rs.285.19 crore in FY16, registering y-o-y growth of around 14%. The same was on account of improved demand scenario and expansion into emerging sectors like hydrocarbons, metro rail projects & fertilizers. PBILDT margin remained stable at 10.75% in FY17 (PY: 10.91%) and overall PAT margin have improved to 1.54% in FY17 (PY: 1.09%).

Overall gearing also improved from 0.68x as on March 31, 2016 to 0.61x as on March 31, 2017 on account of lower working capital/ CC utilization levels.

In Q1FY18, the total operating income has grown upto Rs.88.04 crore (PY: Rs.74.34 crore) registering an y-o-y growth of 18.43% and PAT have increased by 33.64% on y-o-y basis.

Strong Demand Drivers for Control & Instrumentation Cables

Strong increase in demand for control and instrumentation cables is expected with approval of several projects by Government of India for promotion of renewable sources of energy. In FY18, under the central scheme Fuel Gas

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Desulphurization (FGD), Gol has identified 1,80,000 MW of thermal power where emissions of toxic gases is to be reduced and under the Bharat VI compliance 14 hydrocarbon refineries are to be upgraded by FY20. The implementation of these projects will create additional demand for control & instrumentation cables. Also, with the expansion of metro/freight corridors and infrastructure development under Smart city schemes will create further demand for the cable industry.

Experienced promoter with long track-record of operations in the cable industry

Mr.Naveen Sawhney, promoter of CCIL has associated with the cable industry for over four decades with extensive experience in the manufacturing of cables. He holds a post graduate degree 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, the company set-up a second manufacturing unit in Kaharani, Rajasthan, with an aggregate installed capacity of 65,000 km across different product-lines.

Established position in the control and instrumentation cables

CCIL has a well-established position in the control and instrumentation cables segment, wherein the orders are mostly customized compared to peers like CMI Industries and Gemscab which are serving across varied industries and also have presence across relatively more competitive segments like power cables and telecommunication cables. CCIL reported net sales of Rs.286 crore from control and instrumentation cables segment, representing around 89% (PY: 85%) of net sales in FY17.

Diversified and reputed clientele base

CCIL is approved supplier for several PSUs from oil sector and is also an approved vendor for the supply of cables to all 14 hydrocarbon refineries (under Bharat VI compliance). The clients include IOCL, BPCL, HPCL, CPCL, BORL, Kochi Refinery, MRPL, Numligarh Refinery, HPCL-Mittal refinery and others. Additional demand from these segments is expected with the implementation of Gol schemes for promotion of renewable energy sources.

CCIL is also associated with metro rail projects across major cities: Lucknow, Chennai, Delhi, Hyderabad, Kochi, Bangalore, Mumbai & Jaipur. With the diversification of clientele base across sectors like hydrocarbons, automobile, cement, power, freight corridors etc. CCIL has been able to reduce its concentration risk.

Increased Exposure towards Niche Sectors

The company is gradually shifting its focus towards sectors like Hydrocarbons, Fertilisers & Chemicals, Freight corridors etc. from where the demand is expected to grow in coming years. The contribution of relatively stressed sectors like Power is expected to reduce over years. Same will also improve the collections period and operating cycle of the company.

Key Rating Weakness

Working capital intensive nature of operations

CCIL's operations are working capital intensive in nature. The company buys the bulk of the raw materials (PVC, GI Wire, etc.) in spot markets where the payment is required to be backed by inland LC of 120-150 days. During the 12-month period ending July, 2017, average utilization of fund-based working capital borrowings stood at around 86%. Further, average utilization of non-fund based working capital borrowings stood at around 97% during the 12-month period ending May, 2017.

Susceptibility of margins to volatility in raw material prices

The company's business is raw material intensive with raw material costs forming majority of the total operating cost (more than 85%). As such, the profitability margins of the company remain susceptible to adverse movement in raw material prices which the company may not be able to pass on to its customers owing to competition pressure as well as lack of escalation clauses in its contracts with the customers.

Competitive Nature of Industry

The Indian cable industry is highly competitive and fragmented with a large number of cable producers in both organized and unorganized sector, leading to the pressure on prices and limited ability to pass on the increase in the raw material

prices, especially in the tender-based business. However, CCIL being in existence for over two decades in the cable industry has proven-product quality standards which, to an extent, pose entry barrier in the industry.

Analytical approach: Standalone

Applicable Criteria

- **Criteria on assigning Outlook to Credit Ratings**
- **CARE's Policy on Default Recognition**
- **Rating Methodology for Manufacturing Companies**
- **Criteria for Short Term Instruments**
- **Financial ratios – Non-Financial Sector**

About the Company

CCIL was incorporated in October 1991 as 'Cords Cable Industries Private Limited', which was later converted into a public limited company in May 2006. CCIL is engaged in the manufacturing of cables which find application across industries, viz, power, steel, cement, real-estate, railways, 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) with revenue contribution of 35%, 50% and 16%, respectively in FY16 (refers to the period April 01 to March 31). The business is largely order driven and products are generally made as per customer's specifications. CCIL has two manufacturing facilities located in Bhiwadi, Rajasthan with total installed capacity of 31,925 km for Instrumentation Cable, 30,150 km for Control Cable and 2,925 km for LT power cable.

Brief Financials (Rs. crores)	FY16 (A)	FY17 (A)	Q1FY18 (UA)
Total operating income	285.20	325.95	88.04
PBILDT	31.12	35.06	8.45
PAT	3.11	5.03	1.08
Overall gearing (times)	0.68	0.61	NA
Interest coverage (times)	1.49	1.60	NA

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. 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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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
Fund-based-Long Term	-	-	-	46.00	CARE BBB; Stable
Fund-based-Short Term	-	-	-	18.25	CARE A3
Fund-based-LT/ST	-	-	-	14.00	CARE BBB; Stable / CARE A3
Non-fund-based-LT/ST	-	-	-	138.00	CARE BBB; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	46.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (20-Jan-17)	1)CARE BBB- (27-Oct-15)	1)CARE BBB (08-Sep-14)
2.	Fund-based-Short Term	ST	18.25	CARE A3	-	1)CARE A3 (20-Jan-17)	1)CARE A3 (27-Oct-15)	1)CARE A3 (08-Sep-14)
3.	Fund-based-LT/ST	LT/ST	14.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (20-Jan-17)	1)CARE BBB- / CARE A3 (27-Oct-15)	1)CARE BBB / CARE A3 (08-Sep-14)
4.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (20-Jan-17)	1)CARE BBB- (27-Oct-15)	1)CARE BBB (08-Sep-14)
5.	Non-fund-based-LT/ST	LT/ST	138.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (20-Jan-17)	1)CARE BBB- / CARE A3 (27-Oct-15)	1)CARE BBB / CARE A3 (08-Sep-14)
6.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3	-	1)CARE A3 (20-Jan-17)	1)CARE A3 (27-Oct-15)	1)CARE A3 (08-Sep-14)

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