

Precision Wires India Limited

December 27, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	72.62 (enhanced from 71.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	500.00 (reduced from 531.75)	CARE A1 (A One)	Reaffirmed
Total Facilities	572.62 (Rupees Five hundred Seventy Two crore and Sixty Two lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The 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, increasing scale of operations though moderated in H1FY20, favourable financial risk profile and debt protection metrics as well as efficient working capital management along with strong liquidity.

However, the rating strengths are tempered by moderate operating margins due to relatively low value addition in its products amongst prevalent competition in the copper winding wire industry from unorganized players, company's exposure to foreign exchange risk as well as the current slowdown in the end user industries of PWIL's products.

Rating Sensitivities

Positive Factors

- Efficient working capital management with maintaining strong liquidity.
- Substantial increase in scale of operations by 20% on a sustainable basis.

Negative Factors

- Material reduction in market share in copper winding wires.
- Increase in overall gearing above 1.50 times on a consistent basis.

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, who has been associated with PWIL since 1996, over-look 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 44,000 MTPA as on November 30, 2019. 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, construction industries. PWIL also caters to retail/ replacement demand through its branches and agents. The company caters to its customers through its depots from Bangalore, Chennai and Noida.

Increase in scale of operations during FY19 though moderated in H1FY20

The scale of operations of PWIL registered growth of 25% to Rs.1759 crore in FY19 from Rs.1410 crore in FY18 contributed by both increase in sales quantity as well as better sales realization. Sales in quantity increased from 30,649 MT in FY18 to 32,886 MT in FY19. PBILDT margins slightly moderated during FY19 i.e. it decreased from 6.15% in FY18 to 5.33% in FY19 owing to higher power & fuel expenses, employee costs and higher selling expenses.

However, during H1FY20, owing to slowdown in demand from power and automobile sectors, operations moderated. PWIL reported total income from operations of Rs.796.43 crore as against Rs.873.94 crore during H1FY19. PBILDT margin during H1FY20 was 5.01%. The company has generated PAT of Rs.16.30 crore during H1FY20.

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

With slowdown in the economy especially in the automobile and power sectors, PWIL will not be able to maintain same level of operations during FY20, however the performance is expected to improve from FY21.

Favourable financial risk profile albeit capital expenditure

PWIL continues to have favourable financial risk profile. The debt profile of PWIL consists of Term loan, Working capital borrowings and majorly Acceptances. The overall gearing of the company slightly improved to 0.89x as on March 31, 2019 as against 0.96x as on March 31, 2018 owing to lower working capital borrowings. The same improved to 0.49x as on September 30, 2019 owing to lower acceptances and minimal working capital borrowings.

The company has implemented expansion project for Rs.48 crore, funded through its own internal accruals of Rs.30 crore and availed term loan of only Rs.18 crore in FY19, so as to save interest outflow. As of now, the capex is completed and capacity as on date is 44,000 MTPA.

Favourable debt protection metrics; comfortable working capital management

Interest coverage ratio of the company marginally dipped to 5.47 times in FY19 as compared to 5.70 times in FY18 on account of increase in interest and finance expenses due to new term loan taken by PWIL for implementation of expansion of capacity. With strong accruals during FY19, total debt to gross cash accruals slightly improved to 4.26 years from 4.53 years in FY18, even though there was increase in term debt but this increase was compensated by lower working capital borrowings as on date.

The company manages its working capital effectively as shown by its low fund-based utilisation of 4% during FY19.

Key Rating Weaknesses

Relatively low value adding 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 5-6%.

The company manufactures winding wires, which are utilized to manufacture rotating and static electrical equipment. 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 larger 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 80% of company's raw material requirement is met indigenously and balance through imports.

PWIL books raw material requirement on receipt of confirmed orders. The company procures copper in back-to-back arrangement with suppliers against confirmed orders. Thereby, mitigating volatility of raw material prices to a 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.33.23 crore as on March 31, 2019. The company's average fund-based working capital utilisation for FY19 was low at 4%. The company has term loan repayments of Rs.1.52 crore in FY20 and Rs.4.29 crore in FY21 which are very low compared to envisaged cash accruals. Within medium term, no major capex is envisaged.

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](#)

[CARE's methodology for manufacturing companies](#)

About the Company

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 with a total installed capacity of 44,000 metric tonne per annum (MTPA) as on November 30, 2019. The company also has a facility at Palej, Gujarat for insulating varnish and resins

for captive consumption with capacity of 1750 MTPA. 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)	FY18 (A)	FY19 (A)
Total Operating Income	14909.92	1758.51
PBILDT	86.75	93.64
PAT	35.98	41.83
Overall Gearing (times)	0.96	0.89
Interest coverage (times)	5.71	5.47

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	-	-	-	500.00	CARE A1
Fund-based - LT-Term Loan	-	-	Mar 2024	17.62	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE A; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	500.00	CARE A1	-	1)CARE A1 (05-Oct-18)	1)CARE A1 (01-Mar-18)	1)CARE A1 (26-Dec-16)
2.	Fund-based - LT-Term Loan	LT	17.62	CARE A; Stable	-	1)CARE A; Stable (05-Oct-18)	1)CARE A; Stable (01-Mar-18)	1)CARE A; Stable (26-Dec-16)
3.	Fund-based - LT-Cash Credit	LT	35.00	CARE A; Stable	-	1)CARE A; Stable (05-Oct-18)	1)CARE A; Stable (01-Mar-18)	1)CARE A; Stable (26-Dec-16)
4.	Fund-based - LT-Working Capital Demand loan	LT	20.00	CARE A; Stable	-	1)CARE A1 (05-Oct-18)	1)CARE A1 (01-Mar-18)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
B. Non-financial covenants	
FB and NFB limits not to exceed Rs.580 crore.	

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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