

Cords Cable Industries Ltd.

December 28, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Remarks
Long Term Bank Facilities- Fund Based	61.56 (46.00)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities- Fund Based	18.00 (18.25)	CARE A3	Reaffirmed
Short Term Bank Facilities- Non Fund Based	7.00 (2.00)	CARE A3	Reaffirmed
Long/ Short Term Bank Facilities- Fund Based	9.00 (14.00)	CARE BBB; Stable/CARE A3	Reaffirmed
Long/ Short Term Bank Facilities- Non Fund Based	148.00 (138.00)	CARE BBB; Stable/CARE A3	Reaffirmed
Total Facilities	243.56 (Rupees Two Hundred Forty Three crore and Fifty Six lakh only)		Reaffirmed

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 moderate scale, working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices and presence of the company in a highly competitive cable industry.

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
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, 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 marked by addition of new clients in hydrocarbon sector

CCIL is an 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 company has received an approval from a Gulf Oil major (Abu Dhabi National Oil Company) which is expected to provide boost to the CCIL's exports and also increase revenue contribution from hydrocarbon sector. In addition, CCIL has also been successful in winning an order for the supply of signal cables to be used in Polymer Addition Project towards hydrocarbon sector in the state of Punjab which has been executed in FY18 and another order for supplies to hydrocarbon sectors in the states of Haryana, Assam and Gujarat which has been 50% executed.

With the diversification of clientele base across sectors like hydrocarbons, automobile, cement, power, freight corridors etc. CCIL has a low customer concentration risk which is evident by the fact that the top 4 customers contributed around 22% (PY: 23%) of net sales in FY18.

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

Strong Demand Drivers for Control & Instrumentation Cables and CCIL's Increased Exposure towards Emerging Sectors

Under the central scheme Fuel Gas Desulphurization (FGD), GoI 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. New infrastructure projects like the construction of 84 new airports as planned by the Airport Authority of India and the initiation of the Mumbai Metro line 3 is expected to provide a boost in the demand for C&I cables.

The refurbishment of five fertilizer plants will require C&I cables to setup control panels that will be required for gas pipelines. In addition, several water treatment projects are being established for sewage treatment, desalination, purification etc. wherein control panels will be setup for which C&I cables will be installed.

The company is gradually shifting its focus towards sectors like hydrocarbons, freight corridor, fertilisers and infrastructure projects from where the demand is expected to grow in coming years. The percentage of sales from Power sector has been continuously decreasing from 29% in FY17 to 27% in FY18 and 10% in FY19 (proj). However, the usage of power cables is not restricted to the power sector alone and is used in other sectors like metro/freight, fertilizers, cement & metals etc. Therefore, the company's capacity for power cables will not be obsolete.

Improvement in total operating income with relatively stable margins and solvency

During FY18, CCIL reported total operating income of Rs.367.09 crore as against total operating income of Rs.325.50 crore in FY17, registering y-o-y growth of ~12.78%. PBILDT margin decreased slightly from 10.80% in FY17 to 10.13% in FY18. However, overall PAT margin improved slightly from 1.57% in FY17 to 1.70% in FY18.

Overall gearing including acceptances remained constant to 0.84x as on March 31, 2018. Total debt/ GCA increased from 6.58x in FY17 to 6.98x in FY18.

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 (Copper, PVC, GI Wire, etc.) in spot markets where the payment is required to be backed by inland LC of 120-150 days. In case of copper, the same is procured from the suppliers against LC discounting. CCIL extends credit period of around 90 to 100 days to its customers. During the 12-month period ending October, 2018, average utilization of fund-based working capital borrowings stood at around 92.40%. Further, maximum utilization of non-fund based working capital borrowings stood at around 86.30% during October, 2018.

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 (around 89.60%). The major raw materials used by CCIL include Copper, PVC, G.I. wire etc, with copper forming around 63.50% of the total raw material costs. A major portion of copper is procured from Vedanta (70%) 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.

Liquidity Analysis

In FY18, the average collection period was 97 days (PY: 105 days), average inventory days was 56 days (PY: 60 days) and the average creditors days was 75 days (PY: 98 days) on account of better credit terms with its suppliers. The total working capital cycle increased to 78 days (PY: 67 days). Cash and bank balance stood at Rs.25.95 cr as on March 31, 2018 of which free cash amounts to Rs.10.45 cr. During the 12-month period ending October, 2018, average utilization of fund-based working capital borrowings stood at around 92.40%. Further, maximum utilization of non-fund based working capital borrowings stood at around 86.30% during October, 2018.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short-term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

Background

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) with revenue contribution of 42%, 43% and 15%, respectively in FY18. Instrumentation cables are designed to transmit signals without any external interference and are used in data acquisition systems, digital control, computer networking & communication systems. Control cables are generally used in interconnection of electrical instruments and panel control systems. These are used for electric power, lighting & internal wiring. Power cables are used in connection of power supply to residential, commercial & industrial units.

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) with segment-wise capacity of 31,925 km for Instrumentation Cable, 30,150 km for Control Cable and 2,925 km for LT power cable as on March 31, 2018.

Brief Financials (Rs. Crore)	FY17(A)	FY18(A)
Total operating income	325.50	367.09
PBILDT	35.16	37.17
PAT	5.10	6.24
Overall gearing (times)	0.84	0.84
Interest coverage (times)	1.59	1.62

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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	-	-	-	61.56	CARE BBB; Stable
Fund-based-Short Term	-	-	-	18.00	CARE A3
Fund-based-LT/ST	-	-	-	9.00	CARE BBB; Stable / CARE A3
Non-fund-based-LT/ST	-	-	-	148.00	CARE BBB; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	7.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term	LT	61.56	CARE BBB; Stable	-	1)CARE BBB; Stable (12-Sep-17)	1)CARE BBB-; Stable (20-Jan-17)	1)CARE BBB- (27-Oct-15)
2.	Fund-based-Short Term	ST	18.00	CARE A3	-	1)CARE A3 (12-Sep-17)	1)CARE A3 (20-Jan-17)	1)CARE A3 (27-Oct-15)
3.	Fund-based-LT/ST	LT/ST	9.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (12-Sep-17)	1)CARE BBB-; Stable / CARE A3 (20-Jan-17)	1)CARE BBB- / CARE A3 (27-Oct-15)
4.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (20-Jan-17)	1)CARE BBB- (27-Oct-15)
5.	Non-fund-based-LT/ST	LT/ST	148.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (12-Sep-17)	1)CARE BBB-; Stable / CARE A3 (20-Jan-17)	1)CARE BBB- / CARE A3 (27-Oct-15)
6.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3	-	1)CARE A3 (12-Sep-17)	1)CARE A3 (20-Jan-17)	1)CARE A3 (27-Oct-15)

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