Press Release

H.D. Wire Private Limited

April 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	128.44 (Reduced from Rs.140.67 crore)	IVR BBB/Positive (IVR Triple B with Positive Outlook)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Long Term Bank Facilities	45.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Assigned	Simple
Long Term/Short term Bank Facilities	25.00 (Increased from Rs.15.00 crore)	IVR BBB/Positive/IVR A3+ (IVR Triple B with Positive Outlook/IVR A Three Plus)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Short term Bank facilities	41.00 (Reduced from Rs.51.00 crore)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**239.44 (INR Two hundred thirty nine crore and forty four lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of H.D. Wire Private Limited (HDWPL) continues to derive strength from its longstanding presence in the industry under experienced & resourceful promoters, locational advantage from being located in Indore resulting in easy access to all major parts of the country with diversified product profile in the wire industry and established market position of the company underpinned by association with reputed clientele. The ratings also positively note regular equity infusion by the promoters, improvement in HDWPL's business performance in FY23 and subsequently in FY24 leading to sustained improvement in the capital structure and debt protection metrics. However, these rating strengths remain constrained by HDWPL's exposure to intense competition, vulnerability to volatility in the prices of raw material & finished goods and working capital intensive nature of its operations.

The outlook is revised from stable to positive backed by expected further improvement in business performance with increase in profitability coupled with strengthening of the capital structure in the near to medium term.

Key Rating Sensitivities

Upward Factors:

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure with improvement in overall gearing
- Improvement in working capital management leading to improvement in operating cycle and liquidity

Downward Factors:

- Decline in revenue and profitability leading to deterioration in debt protection metrics
- Any unplanned capex leading to impairment in the capital structure with moderation in overall gearing to over 3x
- Increase in operating cycle to over 250 days impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track of operations under experienced promoters and continuous support by the promoters in the form of equity infusion**

Being incorporated in 1988, HDWPL has a long track record of operations in the wire Industry. Moreover, the promoter Indore based Mr. Dilip Dev and his family members have extensive business experience for around five decades. Long standing business experience of the promoters has helped the company to build established relationships with both customers and suppliers. Moreover, the promoters are resourceful and have continuously infused funds to support the business operations. The promoters have infused funds in the form of equity aggregating to Rs.25.36 crore in FY23 (Rs.7.53 crore in FY22). Furthermore, the promoters are planning to infuse Rs.15 crore in the business in the near term to support the business operation.

- **Established market position and reputed clientele**

HDWPL has an established market position in the Galvanized Wires (GI wires) industry. The company's customer base consists of reputed companies as evident from the order book of the company. The repeat orders received from its clientele validates its capabilities. Though HDWPL has low bargaining power with its customers, its clientele base has sound credit risk profile, which does reduce the counter party payment risk to a certain extent.

- **Locational advantage and diversified product profile in the wire industry**

The company benefits from the low transportation cost and the easy access to quality raw materials as well as power and fuel sources by virtue of the plant's strategic location in Indore, which is centrally located to the country. Further, the company manufactures wide range of products in the wire industry from MS wires to Grade 3 Spring wires both coated and uncoated. Range of products includes Galvanized Steel & M.S. Wire, Cable Armour, Aluminium Conductor Steel Reinforced Wire, Stay Wires, Annealed/Binding Wires, High Carbon Rope Wires etc. The Company has recently also started focusing on the wire requirements of the automotive industry and is developing capacities and products to meet the growing demand in this sector.

- **Improvement in business performance**

The company has witnessed improvements in its capacity utilisation in FY23 and subsequently in FY24 leading to higher volumetric growth in its GI wire segment which coupled with steady sales realisations resulted in overall growth in the scale of operations. Accordingly, total operating income (TOI) of the company witnessed an y-o-y increase by ~5% to Rs. 456.01 crore in FY23 as against Rs. 434.91 crore in FY22. The topline of the company has further increased to Rs.554.50 crore in FY24. With higher focus on high margin products for automotive segment coupled with higher absorption of fixed overheads owing to rise in capacity utilisation, the EBITDA margin also witnessed improvement in FY23. However, it has slightly moderated in FY24 on account of higher raw material and selling overhead costs. EBITDA increased from Rs. 54.16 crore in FY23 to Rs. 59.20 crore in FY24. The PAT margin also witnessed steady improvement from 0.65% in FY23 to 2.61% in FY24. Underpinned by improvement in profitability, gross cash accruals of the company have also increased to

Rs.20.28 crore in FY24. Infomerics expect that the PAT margin of the company will remain more than ~2-2.50% in the near term.

- **Improvement in the capital structure though continues to remain moderate**

The capital structure of the company has improved gradually marked by improvement in its leverage ratios mainly on the back of infusion of fresh equity by the promoters during FY23 amounting to Rs.25.36 crore coupled with reduction in term debts. The debt profile of the company mainly comprises GECL and other working capital borrowings. The debt equity ratio and overall gearing ratio has improved from 1.03x and 3.15x respectively as on March 31,2022 to 0.60x and 2.32x respectively as on March 31,2023. The overall gearing ratio is further estimated to improve to below 2x as on March 31,2024. Moreover, the total indebtedness of the company marked by TOL/TNW also estimated to improve below 3x as on March 31,2024 from 3.69x as on March 31,2023.

Key Rating Weakness:

- **Vulnerability of profitability to volatility in the prices of raw material and finished goods**

The operating margin of the company is vulnerable to volatility in the input prices (mainly steel wire rods and zinc) as well as realisation from finished goods. The prices and supply of the main raw material, steel wire rods directly impact the realisations of finished goods.

- **Exposure to intense competition; leading to thin margins**

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, HDWPL also faces competition from the organized sector players. However, with impetus on high margin high carbon steel products coupled with technological advancements in the plants the profit margins are expected to witness steady improvement in the near term.

- **Working capital intensive nature of operations**

The operations of the company remained working capital intensive due to its high inventory holding of raw materials to maintain uninterrupted production and maintenance of finished goods to manage immediate orders to retain customers. Besides, the company needs to procure steel products in advance from SAIL, TATA Steel etc. On the other hand, the company has to extend credit period of about three to four months to its customers in view of intense competition in the industry. The operating cycle though estimated to improve remain elongated in FY24. However, the company is planning to focus more on inventory management to reduce its average inventory holding period going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning Rating Outlook

Policy on default recognition

Criteria on complexity

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its adequate gross cash accruals against its debt repayment obligation in the near term. The company is expected to achieve gross cash accruals in the range of ~Rs.31.50-45.50 crore as against its debt repayment obligations in the range of ~Rs.9-18 crore during FY25-FY28. Further, the promoters are resourceful and has infused equity on a regular basis to support the business operations in the past. Infomerics expects that such support will continue in the near future. However, the liquidity position of the company remains constrained due to its high working capital requirements. The average working capital limit remained highly utilized at ~96% during the past 12 months ended January 2024 indicating low liquidity buffer. Moreover, the company has moderate gearing headroom in view of its moderate capital structure.

About the Company

Established in the year 1988, H. D. Wire Private Limited (HDWPL), is promoted by Mr. Dilip Dev along with his family members. The company is engaged in manufacturing of wide range of products in the wire industry from MS wires to welding electrodes. Its manufacturing unit is located at Sanwer Road, Industrial Area, Indore, Madhya Pradesh.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023	31-03-2024
	Audited	Audited	Provisional
Total Operating Income	434.91	456.01	554.50
EBITDA	46.88	54.16	59.20
PAT	3.40	2.96	14.50
Total Debt	251.05	250.38	225.69
Tangible Net worth	79.69	108.00	122.50
EBITDA Margin (%)	10.78	11.88	10.68
PAT Margin (%)	0.78	0.65	2.61
Overall Gearing Ratio (x)	3.15	2.32	1.84
Interest Coverage Ratio (x)	1.34	1.66	1.71

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Brickwork ratings vide press release dated July 05, 2023, has moved the rating to issuer non cooperating category due to non-cooperation by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23 (Feb 03, 2023)	Date(s) & Rating(s) assigned in 2021-22
1.	Term loans	Long Term	50.44	IVR BBB/Positive	-	IVR BBB/Stable	-
2.	Cash Credit	Long Term	78.00	IVR BBB/Positive	-	IVR BBB/Stable	-
3.	Cash Credit	Long Term	45.00	IVR BBB/Positive	-	-	-
4.	Letter of Credit*	Long/Short Term	25.00	IVR BBB/Positive, IVR A3+	-	IVR BBB/Stable, IVR A3+	-
5.	Letter of Credit	Short term	41.00	IVR A3+	-	IVR A3+	-

**Includes one way interchangeable for a period of 6 months of Rs.10 crore from PNB and 100% interchangeable from non-fund based to fund-based facility of Rs.15 crore from Union Bank of India.*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Term loans	-	-	Feb 2028	50.44	IVR BBB/Positive
Cash Credit	-	-	-	123.00	IVR BBB/Positive
Letter of Credit*	-	-	-	25.00	IVR BBB/ Positive /IVR A3+
Letter of Credit	-	-	-	41.00	IVR A3+

**Includes one way interchangeable for a period of 6 months of Rs.10 crore from PNB and 100% interchangeable from non-fund based to fund-based facility of Rs.15 crore from Union Bank of India*.

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-HDWire-apr24.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com