



Press Release

Cabcon India Limited

September 03, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	100.00 (Enhanced from Rs.90.00 crore and including proposed limit of Rs.10.00 crore)	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities – ILC/FLC	75.00 (Enhanced from Rs.40.00 crore and including proposed limit of Rs.19.00 crore)	IVR A2+ (IVR A Two Plus)	Reaffirmed
Short Term Bank Facilities – Bank Guarantee	237.00 (Enhanced from Rs.202.00 crore and including proposed limit of Rs.21.00 crore)	IVR A2+ (IVR A Two Plus)	Reaffirmed
Total	412.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Cabcon India Limited (CIL) continues to derive strength from its long track record of operations under its experienced promoters, diversified product mix, partially integrated operations, reputed clientele with low counter-party payment risk and partially integrated operations of the group. The rating also factors in stable financial performance of the company albeit moderation in top line in FY20 (Prov.) with satisfactory gearing and satisfactory debt protection metrics. Further, the ratings also note demonstrated support from the promoters through continuous infusion of funds and healthy order-book position indicating strong near to medium term revenue visibility. However, these rating strengths are partially offset by susceptibility of its operating margin to fluctuation in input prices, exposure to intense competition leading to range bound margins and elongated receivables cycle leading to high working capital intensity.



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Key Rating Sensitivities:

Upward factors

- Significant improvement in scale of operations with continuous inflow of orders and improvement in profitability leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in TOL/TNW to below 3x and improvement in debt protection metrics
- Improvement in liquidity with improvement in the operating cycle and improvement in average working capital utilisation

Downward factors

- More than expected moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.
- Moderation in the capital structure with overall gearing moderated to more than 1x
- Elongation in operating cycle leading to deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record of operation

Incorporated in 1991 by Mr. SB Fomra, CIL has a track record of about three decades of operations in the cables and conductor's industry. The promoters are vastly experienced and associated with this industry for past three decades. Presently, the day to day operations of the company is managed by Mr. Madan Mohan Fomra (Managing Director), Mr. Vijay Kumar Fomra and Mr. Manish Kumar Fomra (Sons of Mr. S.B. Fomra) each of whom are having experience of more than 20 years in this business. Besides the company has a strong technical team comprising of engineers in charge of production, technical and quality functions who are vastly experienced in the said industry having worked with leading players previously.

Demonstrated support from the promoters

The promoters supported the business by infusing funds as required in the form of subordinated unsecured loans (Rs.27.24 crore outstanding as on March 31, 2020 [Prov.]



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and have demonstrated positive commitments since inception. In FY20, the promoters have brought in fresh equity to the extent of Rs.5 crore. Further, they have also provided an undertaking to infuse fresh equity of Rs.5.00 crore by Q4, FY21 by way of conversion of unsecured loans into equity.

Diversified product mix

CIL is engaged in the business of manufacturing of wide range of cables (LT Power Cable, LT Control Cable and LT Aerial Bunched Cable, PVC Aluminium Cables) and conductors (All Aluminium Conductors (AAC), All Aluminium Alloy Conductors (AAAC), Aluminium Conductor Steel Reinforced (ACSR), Aluminium Alloy Conductor Steel Reinforced (AACSR) which finds applications in various industries which primarily includes Power Transmission & Distribution Lines, Rural Electrification, etc. The manufacturing operations contributes around ~55% of its total operating income in FY20 (Prov.) [~60% of TOI in FY19]. Besides the company is also involved in EPC work for installation of power distribution lines and substations under different schemes of the Central Government. The revenues from EPC segment constitutes ~45% of its total operating income in FY20 (Prov.) [~40% of TOI in FY19].

Reputed Clientele with low counter party payment risk

CIL has a diversified client base comprising various government discoms, departments and reputed private players. The repeat orders received from its clientele validates its capabilities. Though CIL has low bargaining power with its customers, its clientele base has sound credit risk profile, which reduces the counter party payment risk to a certain extent.

Healthy order book position

CIL's unexecuted order book position as on June 30, 2020 stood at around Rs.534.15 crore (~1.08 times of its FY20 (Prov.) operating income) comprising pending orders worth ~Rs.293.79 crore for the EPC division and ~Rs.240.36 crore for the manufacturing division. The orders for cables and conductors (manufacturing division) are expected to be executed over 8 to 12 months while the EPC orders will be executed over 1.5-2 years, indicating a satisfactory near to medium term revenue visibility.



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Partially integrated operations of the group

In fiscal 2008, the promoters of CIL set up another company, M/s. Shreyash Aluminium & Alloys Pvt Ltd (SAAPL) for manufacturing aluminium wire rods with a capacity of 24000 TPA. The company procures aluminium ingots from established players like Hindalco, NALCO, etc along with various local players/traders. Thereafter, these ingots are given to group company, SAAPL for manufacturing of Aluminium wire rod (from which cables and conductors are made) on job work basis. The entire requirement for aluminium wire rods is met from SAAPL. The partially integrated nature of operations benefits the company in terms of quality output and overall performance efficiency.

Stable financial performance albeit moderation in top line in FY20 (Prov.)

CIL's total operating income declined to Rs.493.00 crore in FY20 (Prov.) from Rs.537.86 crore in FY19 since the company was not able to meet its sales target for the month of March, 2020 due to sudden outbreak of COVID 19 and the ensuing lockdown. As observed from the past trend, the company generates maximum sales during the last month of the financial year. In spite of decline in total operating income in FY20 (Prov.) as compared to FY19, the EBITDA margin improved from 8.83% in FY19 to 9.51% in FY20 (Prov.) driven by higher absorption of fixed overheads with improved scale of operations and execution of high margin projects. Further, on account of decline in interest cost, PBT margin improved from 3.80% in FY19 to 4.51% in FY20 (Prov.). Consequently, PAT margin also improved from 2.43% in FY19 to 3.38% in FY20 (Prov.). GCA improved from Rs.15.84 crore in FY19 to Rs.19.95 crore in FY20 (Prov.). During Q1FY21, CIL achieved sales of Rs.48.05 crore from the manufacturing division and Rs.25.66 crore from the EPC division aggregating to Rs.73.71 crore. Infomerics expects, the performance of CIL will continue to remain stable in the near to medium term.

Satisfactory financial profile marked by satisfactory gearing and debt protection metrics

The capital structure of the company remained moderate with almost nil Long-term debt to equity ratio and the overall gearing ratio at 0.97x as on March 31, 2020 (Prov.) (1.21x as on March 31, 2019). In order to improve its capital structure and to reduce its overall leverage in the context of increasing scale of operations, the company had brought in fresh equity to the extent of Rs.5.00 crore in FY20. The debt coverage parameters like interest coverage ratio



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and Total debt to GCA remained satisfactory at 1.83x (1.50x in 2019) and 5.08x (6.29x in FY19) in FY20 (Prov.). TOL/ANW also remained satisfactory at 3.13x as on March 31, 2020 (Prov.).

Favourable outlook of cables and conductors industry in India

The cables and conductors industry is open to significant growth opportunities on account of investments planned in the power and infrastructure sectors by the government. Investment by the central government through schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS) and Saubhagya will continue to maintain the demand in the cables and conductors' segment.

Key Rating Weaknesses

Susceptibility of operating margin to fluctuations input prices

CIL's operating margin is susceptible to volatility in its input prices (mainly aluminium). The company procures raw material from majors like NALCO, Hindalco and Vedanta. Any upward movements in the prices of aluminium, the primary raw material used in the manufacture of cables and conductors can have an adverse effect on the profit margins. However, the company limits this risk by hedging in the commodity markets (like MCX). Further, the company has escalation clause in most of its contracts.

Exposure to intense competition; leading to range-bound margins

The industry is characterized by high fragmentation with a large number of unorganized players, constraining the pricing power of organized sector players. Apart from the unorganized sector, CIL also faces competition from the organized sector players. The profitability margins have remained range-bound over the last few years given the intense competition and fragmentation in the industry.

Receivable cycle remains elongated leading to high working capital intensity

The receivable cycle of CIL remained high, largely on account of elongated payment cycle from its clients and sizeable retention money in the EPC division. The high working capital intensity is further reflected from almost full utilization of its fund-based limits for the 12 months ended June 2020. However, the company optimizes the working capital cycle by availing higher credit period from its creditors (including stretching payments made to sister concerns for job work done).

Analytical Approach: Standalone



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Applicable Criteria:

Rating Methodology for Manufacturing & Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations of about Rs.0.12 crore in FY21 and healthy unencumbered cash and bank balance of Rs.6.32 Crore as on March 31, 2020. The overall gearing remained comfortable at 0.97x as on March 31, 2020 (Prov.) indicating adequate gearing headroom. However, bank limits are almost fully utilized during the past 12 months ended June, 2020 indicating limited buffer. The non-fund-based utilisation also remained moderate at 81% during the last twelve months ended June, 2020. The company has sought enhancement in bank lines amounting to Rs.80.00 crore, supported by its above unity current ratio.

About the Company

Cabcon India Ltd (CIL) was initially incorporated as a private limited company by Kolkata (West Bengal) based Mr. S.B. Fomra. CIL is engaged in manufacturing and supply/export of Aluminium Conductors, PVC Aluminium Cables, LT Power and Control Cable and LT AB Cables used in power transmission and distribution with its two manufacturing facilities located at Howrah and Kolkata (Both are in the state of West Bengal) with an aggregate capacity of 30,000 MT for manufacturing of cables and conductors. In order to diversify its operations, the company has ventured into execution of turnkey projects for installation of power distribution lines and sub-stations under different schemes of the Central Government since 2010. In 2018, the constitution of the company was converted into a public limited company.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	537.86	493.00
Total Income	545.40	497.31
EBITDA	47.48	46.87
PAT	13.27	16.79
Total Debt	99.70	101.43
Adjusted Net worth	82.43	104.60
EBITDA Margin (%)	8.83	9.51



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For the year ended* / As On	31-03-2019	31-03-2020
PAT Margin (%)	2.43	3.38
Overall Gearing Ratio (x)	1.21	0.97

*As per Infomerics' Standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	100.00 (Enhanced from Rs.90.00 crore and including proposed limit of Rs.10.00 crore)	IVR A- / Stable Outlook	IVR A- / Stable Outlook (July 03, 2019)	-	-
2.	ILC/FLC	Short Term	75.00 (Enhanced from Rs.40.00 crore and including proposed limit of Rs.19.00 crore)	IVR A2+	IVR A2+ (July 03, 2019)	-	-
3.	Bank Guarantee	Short Term	237.00 (Enhanced from Rs.202.00 crore and including proposed limit of Rs.21.00 crore)	IVR A2+	IVR A2+ (July 03, 2019)	-	-

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.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	100.00 (Enhanced from Rs.90.00 crore and including proposed limit of Rs.10.00 crore)	IVR A- / Stable Outlook
Short Term Bank Facilities – ILC/FLC	-	-	-	75.00 (Enhanced from Rs.40.00 crore and including proposed limit of Rs.19.00 crore)	IVR A2+
Short Term Bank Facilities – Bank Guarantee	-	-	-	237.00 (Enhanced from Rs.202.00 crore and including proposed limit of Rs.21.00 crore)	IVR A2+