

Zenium Cables Limited: Assigned

Name of the Instruments	Amount (Rs Crore)	Ratings /Outlook
Cash Credit	6.50	SMERA BB/Stable (Assigned)
Bill Purchase/Bill Discounting	1.00	SMERA A4+ (Assigned)
Inland/Foreign Letter of Credit cum Buyers' Credit	4.00*	SMERA A4+ (Assigned)

**includes Bank Guarantee to the tune of Rs.2.00 crores as a sub limit of Inland/Foreign Letter of Credit cum Buyers' Credit*

SMERA has assigned ratings of '**SMERA BB**' (read as **SMERA double B**) and '**SMERA A4+**' (read as **SMERA A four plus**) on the above mentioned bank facilities of Zenium Cables Limited (ZCL). The outlook is '**Stable**'. The ratings draw comfort from the long track record of operations, experienced management and moderate revenue growth. The ratings are also supported by the stable profit margins and moderate financial risk profile. However, the ratings are constrained by the working capital intensive operations and intense market competition. The ratings also factor in the susceptibility of profit margins to fluctuations in raw material prices.

ZCL is engaged in the manufacture of low tension cables and wires since 1992 and benefits from the extensive experience of its management. The company's revenue has increased at a moderate pace from Rs.38.26 crore in FY2013-14 to Rs.39.90 crore in FY2014-15. In FY2015-16 (provisional), ZCL registered revenue of ~Rs.45.50 crore. ZCL maintained stable operating margins with EBITDA margin at 4.88 per cent in FY2014-15. The financial risk profile has been moderate marked by gearing of 1.58 times and interest coverage ratio of 1.56 times for FY2014-15. The tangible net worth of Rs.5.28 crore includes unsecured loans of Rs.1.14 crore that are subordinated to bank debt as on March 31, 2015. Further, the company plans to go in for capital expansion in the current year to be funded through debt of around Rs.1.00 crore.

However, ZCL's operations are working capital intensive with working capital cycle ranging from 85 – 95 days and high debtor days (around 90 – 120 days) on account of the competitive nature of the industry. The bank limit utilisation has been around 92 per cent for six months ended April 2016. Further, the profit margins are susceptible to volatility in raw material prices (copper, aluminium and PVC). The ratings also note the fragmented nature of the cables and wires industry.

Rating Sensitivity Factors

- Higher than expected debt funded capex plan
- Efficient working capital management
- Scaling up of operations while maintaining profitability

Outlook-Stable

SMERA believes that ZCL will continue to benefit over the medium term from its established presence in the cables and wires industry. The outlook may be revised to 'Positive' if its scale of operations increases substantially while maintaining the operating profitability and registering improvement in its coverage indicators. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of operation or if its financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements and capex.

Criteria applied to arrive at the rating:

- Manufacturing entities

About the Company

Established in 1992 as a proprietary concern, ZCL was converted into a limited company in 2007. The company, headquartered in Mumbai, is engaged in the manufacturing of low tension power cables and wires at Valsad, Gujarat.

For FY2014-15, ZCL reported net profit of Rs.0.16 crore on operating income of Rs.39.90 crore, as compared with profit after tax (PAT) of Rs.0.25 crore on operating income of Rs.38.26 crore in FY2013-14.

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ABOUT SMERA

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