

Press Release

Vardhman Cables and Conductors

October 07, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE B Stable Reaffirmed	-
Bank Loan Ratings	35.00	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	48.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B**' (read as **ACUITE B**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.48.00 Cr bank facilities of Vardhman Cables and Conductors (VCC). The outlook remains '**Stable**'.

VCC's rating reaffirmation takes into account the steady business risk profile buoyed by healthy order book position of the firm. The rating also takes into cognizance the extensive experience of the partners and the long standing operations of the firm. These strengths are, however, offset by the below average financial risk profile characterized by high gearing, the working capital intensive nature of operations of the firm and the competitive & fragmented industry

About the Company

Established in 1993, Vardhman Cables and Conductors (VCC) is a partnership firm. VCC has a manufacturing capacity of 20000 kms/year for electrical cables and conductors. The firm is based in Belgaum, Karnataka and is headed by Mr. Pravin Jain and Mr. S D Gandhi.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Vardhman Cables and Conductors (VCC) to arrive at this rating.

Key Rating Drivers

Strengths

- Steady business risk profile buoyed by healthy order book position

VCC has a long track of operations of around three decades in the electrical components industry. The partners, Mr. Pravin Jain and Mr. S D Gandhi possess an extensive experience of more than two decades in the industry which has aided the firm in establishing healthy relationship with the clientele and added to the growth of the entity. Acuite derives comfort

from the extensive experience of the partners. VCC has achieved revenues of Rs.33.46 Cr as at March 31, 2022 as compared to revenues of Rs.32.15 Cr as at March 31, 2021. The improvement in the operating income is on account of adequate orders and their timely completion. Further, the firm has an unexecuted order book of Rs.20.92 Cr to be executed in FY2023. The operating margin of the company improved to 9.90 per cent in FY2022 as compared to 6.22 per cent in FY2021. The PAT margins recovered and stood at 3.10 per cent in FY2022 against losses of 2.77 per cent as on FY2021. The increase in the profitability margins have Press Release VARDHMAN CABLES AND CONDUCTORS Rating Reaffirmed translated into increased ROCE levels for the firm at 8.71 per cent as on March 31, 2022 as against 4.75 per cent as on March 31, 2021. Acuité believes that, going forward, the growth in scale of operations coupled with healthy order pipeline will be key monitorable.

Weaknesses

- **Below Average financial risk profile**

The firm's below average financial risk profile is marked by weak albeit improving networth, high gearing and moderate debt protection metrics. The net worth of the firm stood at Rs.15.42 Cr as on 31 March, 2022 as against Rs.12.62 Cr as on 31st March, 2021. The gearing of the company stood high at 1.31 times as on March 31, 2022 as compared to 1.86 times as on March 31, 2021. However, the modest debt protection metrics of the firm is marked by the Interest Coverage Ratio (ICR) at 1.59 times in FY2022 and Debt Service Coverage Ratio (DSCR) at 1.59 times in FY2022. The NCA/TD stood low at 0.06 times in FY2022. Acuité believes that going forward the financial risk profile of the firm will improve in the absence of any major debt funded capex plans in the medium term.

- **Working capital intensive nature of operations**

The working capital management of the firm is intensive in nature marked by high Gross Current Assets (GCA) of 470 days in FY2022 as compared to 546 days in FY2021. The high GCA days emanates from the high debtor period, which stood at 485 days as on March 31, 2022 as compared to 525 days as on March 31, 2021 due to the inherent nature of the business. However, the inventory holding stood low at 5 days as on March 31, FY2022 as compared to 21 days as on March 31, 2021. Acuité believes that working capital management of the firm will remain at similar levels due to the extended collection mechanism.

- **Competitive industry**

The company is engaged in cables and conductors' business for Public and private sector companies. The sector is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on the minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the promoters have been operating in this environment for more than six decades.

Rating Sensitivities

- Sustenance of revenue growth
- Elongation in the working capital cycle
- Reduction in the order flow

Material covenants

None

Liquidity Position: Stretched

The liquidity position of VCC is stretched marked by working capital intensity and high utilization of the bank limits. The working capital management is intensive in nature due to high Gross Current Asset days of 470 days in FY2022 on account of the extended collection period of 485 days in FY2022. The fund-based bank limit utilization stood at 91 per cent for the

six months ended August, 2022. However, the current ratio stood comfortable at 2.21 times FY2022 as compared to 1.72 times in FY2021. The net cash accruals stood low at Rs.1.22 Cr as on March 31, 2022. The unencumbered cash and bank balance stood at Rs.0.02 Cr as on March 31, 2022. Acuité believes that the firm's liquidity position will remain stretched over the medium term on account of the elongated working capital cycle and low cash accruals.

Outlook: Stable

Acuité believes that the outlook on VCC will remain 'Stable' over the medium term on account of the experienced management and the steady business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue from the current levels. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, further deterioration in financial risk profile or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	33.46	32.15
PAT	Rs. Cr.	1.04	(0.89)
PAT Margin	(%)	3.10	(2.77)
Total Debt/Tangible Net Worth	Times	1.31	1.86
PBDIT/Interest	Times	1.59	0.75

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated September 29, 2017 had denoted the rating of Vardhman Cables and Conductors as 'CRISIL B+/Stable/A4; ISSUER NOT COOPERATING'.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Jul 2022	Letter of Credit	Short Term	15.00	ACUITE A4 (Issuer not co-operating*)
	Bills Discounting	Short Term	15.00	ACUITE A4 (Issuer not co-operating*)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	3.00	ACUITE B (Issuer not co-operating*)
	Bills Discounting	Short Term	15.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Reaffirmed)

22 Sep 2021	Letter of Credit	Short Term	15.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE B Stable (Reaffirmed)
	Bills Discounting	Short Term	2.00	ACUITE A4 (Withdrawn)
27 Jan 2021	Bills Discounting	Short Term	24.50	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	3.50	ACUITE B (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Issuer not co-operating*)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Issuer not co-operating*)
05 Feb 2019	Cash Credit	Long Term	3.50	ACUITE B+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Reaffirmed)
	Bills Discounting	Short Term	24.50	ACUITE A4 (Reaffirmed)
19 Sep 2018	Cash Credit	Long Term	3.50	ACUITE B+ (Issuer not co-operating*)
	Bills Discounting	Short Term	24.50	ACUITE A4 (Issuer not co-operating*)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Issuer not co-operating*)
26 Aug 2017	Cash Credit	Long Term	3.50	ACUITE B+ Stable (Assigned)
	Bills Discounting	Short Term	24.50	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B Stable Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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