April 06, 2023

# Siechem Technologies Pvt. Ltd.: Rating reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term - Fund/Non-Fund-Based Facilities** | 101.00 | 0.00 | - |
| **Long Term – Fund-Based Facilities** | 0.00 | 116.00 | [ICRA]A (Stable); assigned |
| **Long Term - Term Loan** | 0.00 | 62.50 | [ICRA]A (Stable); assigned |
| **Long Term - Interchangeable Limits** | (5.00) | 0.00 | - |
| **Short Term - Interchangeable Limits** | (5.00) | (78.00) | [ICRA]A1; reaffirmed/assigned |
| **Short Term - Non-Fund-Based Facilities** | 27.00 | 7.00 | [ICRA]A1; reaffirmed |
| **Total** | **128.00** | **185.50** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of the ratings favourably factors in the experience of Siechem Technologies Private Limited (STPL) in specialty cables manufacturing and its diversified customer profile across several industries such as railways, automobile, marine and solar. ICRA notes that the share of specialty grade cables in the company's revenue mix has been above 90% in the last three fiscals, which helped its profit margins to stay above the industry average. The ratings are further supported by a healthy financial risk profile with a demonstrated ability to report profits across business cycles, a comfortable gearing, healthy debt coverage indicators and a strong liquidity profile supported by sizeable cash/bank/liquid investment balance of around Rs.150 crore as of February end 2023 and a healthy buffer in the working capital limits.

The ratings are, however, constrained by the company's exposure to product concentration risks as a sizeable chunk of its earnings is contributed by e-beam cables. Besides, STPL's margins are susceptible to the volatility in raw material prices. While the volatility in metal prices (copper and aluminium) is partly hedged through its order-backed inventory and presence of price variation clause in some contracts, the company remains exposed to margin volatility for the balance raw materials, which mostly include insulation compounds. A sharp rise in prices of insulation compounds along with sea freight inflation significantly dented the operating profitability in FY2022. Additionally, with several new players entering the e-beam cables segment industry in the recent years, the competition has increased, owing to which the operating profit margin slipped to ~12.0% in FY2022 against 19.0-25.5% prevailing between FY2019 and FY2021. Though raw material prices have come off their recent highs, increased competition has restricted the margin improvement, with the operating margins expected to marginally inch up to ~13.5% in FY2023. With the increased competition in the e-beam cables segment, ICRA believes that STPL's margins are unlikely to reach the level prevailing earlier, and that absolute growth in earnings would largely emanate from the enhanced capacity being set up in the vicinity of the old plant. The new facility has double the capacity of the existing plant, which once fully operational, will support the company's growth prospects. The ratings are also constrained by STPL's high collection period and consequently elevated working capital intensity due to its low bargaining power with large institutional customers.

The Stable outlook on the long-term rating reflects ICRA's opinion that STPL will maintain its conservative capital structure and strong liquidity profile going forward, and its growth prospects will be supported by the healthy pipeline of orders and operationalisation of the new facility, which would increase its production capacity by three times.

## Key rating drivers and their description

### Credit strengths

**Established player with considerable experience in cable manufacturing –** Incorporated in 1994, STPL commenced commercial production of specialty cables in 2002. Initially, the company manufactured and marketed jelly-filled cables, which were used in the telecom industry. The company was one of the early adaptors of the electron beam irradiation technology among domestic players which was used to cure insulation compound for enhancing its abrasion resistance, thermal resistance, flame propagation resistance and deformation resistance. This reduces the risk of fire from short circuit, which has been the key reason for the adoption of e-beam cables in the railways, automobiles and marine sectors. Early technology adoption, extensive management experience and in-house research facilities have helped the company improve quality, control costs and provide customised products, which in turn aided it in adding new customers over the years.

**Reputed and diversified customer base across various end-user industries –** The company has a diversified customer base across various end-user industries such as railways, solar energy, automotive, marine and aerospace. The customer concentration is moderate, with the top 10 customers accounting for around 67% of the sales in FY2022. The company is one of the approved vendors designated by the Research Design and Standards Organisation (RDSO), which allows it to participate in Indian Railways' orders, and enjoys a healthy market share in this segment. Owing to its proven track record in the industry, the company gets repeat orders from many customers.  Apart from the railways, the company is gradually increasing its revenue share in the automobile and solar sectors. In this context, ICRA notes that STPL has received customer approvals for supplying e-beam cables to the rapidly growing electric vehicle and metro railway coach manufacturing segments, where competition remains low.

**Healthy financial risk profile, characterised by conservative capital structure and strong debt coverage metrics –** Notwithstanding the moderation in profits margins, the return indicators remain healthy, as reflected by the core RoCE of around 24% in FY2022. The company's low debt levels compared to its sizeable net worth resulted in a comfortable capital structure, as reflected by a gearing of 0.1-0.2 times over the last three fiscals. The coverage indicators, too, remained healthy, as reflected by an interest coverage of around 18 times in FY2022. The net debt (total debt less cash, bank and liquid investments) of the company remained negative as on March 31, 2022. Notwithstanding the debt being contracted to part fund the capex, ICRA expects STPL's credit metrics to remain comfortable, going forward.

### Credit challenges

**Product concentration risk with a sizeable chunk of earnings contributed by the electron beam cables –** The share of specialty grade cables (mostly comprising e-beam cables) in the company's revenue mix has been above 90% in the last three fiscals. Although a high revenue share from e-beam cables has supported STPL's above-average operating margins, it makes the company highly dependent on the demand for one product segment. Any weakening in the demand prospects for e-beam cables in the country would lead to plummeting sales and a painful readjustment.

**Vulnerability of profitability to volatility in raw material prices; increased competition hits profit margins –** Copper and aluminium are the main raw materials used by the company and account for 80-90% of the overall raw material expenses. While the volatility in metal prices (copper and aluminium) is partly hedged through its order-backed inventory and presence of price variation clause in some contracts, the company remains exposed to margin volatility for the balance raw materials, which mainly include insulation compounds. As a result, the profit margin remains susceptible to the volatility in raw material prices because of constrained pricing flexibility, intense industry competition and limited bargaining power with customers.

A sharp rise in prices of insulation compounds along with sea freight inflation significantly dented the operating profitability in FY2022. Additionally, with several new players entering the e-beam cables segment industry in the recent years, the competition has increased, as a result of which the operating profit margins slipped to ~12.0% in FY2022 against 19.0-25.5% prevailing between FY2019 and FY2021. While raw material prices have come off their recent highs, the increased competition has restricted the margin improvement, with the operating margins expected to marginally inch up to ~13.5% in FY2023. With the increased competition in the e-beam cables segment, ICRA believes that STPL's margins are unlikely to reach the levels prevailing earlier, and that absolute growth in earnings would mainly emanate from the enhanced capacity, which is being set up in the vicinity of the old plant. The new facility has double the capacity of the existing plant, which once fully operational, will support the company's growth prospects.

**High working capital intensity –** The company's operations remain working capital intensive owing to high collection period on the back of low bargaining power with large institutional customers. This is reflected by the net working capital relative to the operating income (NWC/OI) of 36% in FY2022.

## Liquidity position: Strong

STPL's liquidity profile remains **strong**, as reflected in the large free cash balance and liquid investment portfolio of around Rs.150 crore as of end-February 2023, which impart a high degree of financial flexibility to the company. Low utilisation of working capital limits, along with expected stable fund flows from operations would support STPL's overall liquidity profile, going forward, notwithstanding the capex programme for which the long-term funding is already in place.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings if the operations of the upcoming manufacturing facility stabilise, leading to an increase in scale and overall earnings, while maintaining healthy credit metrics and a strong liquidity profile.

**Negative factors** – Pressure on the ratings could emerge if there is a deterioration in the financial profile due to a significant decline in the operating profit margin or if a stretch in the working capital cycle adversely impacts the overall liquidity. The ratings could also come under pressure if an elevated level of debt-funded capex weakens the credit metrics. Specific credit metrics that could lead to ratings downgrade include a net debt/OPBDITA of more than 2.3 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the standalone financials of STPL. |

## About the company

STPL was incorporated in 1994 and was promoted by Mr. P Damodaran and his wife Ms. Padma Damodaran. The company began the production of specialty wires and cables from 2002. It has a manufacturing facility in Puducherry with a capacity of 15 MT/day and uses the electron beam irradiation technology for cable curing. STPL had set up its first e-beam accelerator machine in FY2009. In FY2015, the company had set up its second electron beam accelerator to diversify into the railway business. Initially, the company catered only to the telecom industry but over the years it has diversified its customer base across several industries, with the railways being the major customer segment. The company is currently at an advanced stage of increasing its production capacity to 45 MT/day from 15 MT/day by setting up a new unit in the vicinity of the old plant located in Pondicherry.

### Key financial indicators (Audited)

| STPL | FY2021 | FY2022 | 11 FY2023^ |
|---|---|---|---|
| **Operating Income (Rs. crore)** | 351.84 | 483.06 | 668.38 |
| **PAT (Rs. crore)** | 55.70 | 45.48 | 72.47 |
| **OPBDIT/OI (%)** | 25.51% | 11.99% | 13.64% |
| **PAT/OI (%)** | 15.83% | 9.41% | 10.84% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 0.54 | 0.25 | - |
| **Total Debt/OPBDIT (times)** | 0.9 | 0.6 | - |
| **Interest Coverage (times)** | 41.1 | 17.8 | 22.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^Provisional*

### Status of non-cooperation with previous CRA – Not Applicable

### Any other information: None

### Rating history for past three years

| | Instrument | Current Rating (FY2024) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2023 (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 | |
| | | | | | Apr 06, 2023 | Jan 06, 2022 | Nov 30, 2021 | Aug 29 2019 | Aug 08 2019 |
| 1 | **Fund/Non-Fund Based** | Long Term | - | - | - | [ICRA]A (Stable) | - | - | - |
| 2 | **Fund based Facilities** | Long Term | 116.0 | - | [ICRA]A (Stable) | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - |
| 3 | **Term Loans** | Long Term | 62.50 | 21.28 | [ICRA]A (Stable) | - | - | - | - |
| 4 | **Interchangeable Limits^^** | Long Term | - | - | - | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - |
| 5 | **Interchangeable Limits^^** | Short Term | (78.00) | - | [ICRA]A1 | [ICRA]A1 | - | - | - |
| 6 | **Non-Fund Based** | Short Term | 7.00 | - | [ICRA]A1 | [ICRA]A1 | [ICRA]A2+ | [ICRA]A2+ | - |
| 7 | **Unallocated Facilities** | Long Term/ short Term | - | | - | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ |

*NA: Not Available; ^^sublimit of Fund/Non Fund-Based Limits*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Fund-Based Limits | Simple |
| Term Loan | Simple |
| Interchangeable Limits | Very Simple |
| Non Fund-Based Limits | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

### Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Fund-Based Facilities** | NA | NA | NA | 116.00 | [ICRA]A (Stable) |
| **NA** | **Term Loan** | FY2023 | NA | FY2027 | 62.50 | [ICRA]A (Stable) |
| **NA** | **Interchangeable Limits** | NA | NA | NA | (78.00) | [ICRA]A1 |
| **NA** | **Non-Fund-Based Limits** | NA | NA | NA | 7.00 | [ICRA]A1 |

***Source:*** *Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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