December 03, 2024

Paramount Communications Limited: Rating upgraded to [ICRA]BBB (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated Limits	150.00	150.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the rating of Paramount Communications Limited (PCL) factors in the ICRA expectations of consistent improvement in revenues and profit generation largely driven by healthy long term demand outlook in both the domestic and export markets. Moreover, with the repayment of the debt on the books of the company (which was from the asset reconstruction company), the capital structure has witnessed an improvement, and the company becomes eligible for getting bank lines sanctioned which can support the business growth going forward.

ICRA notes that there has been an improvement in the revenues and profitability over the past three quarters, which, along with the equity raised in FY2024 was used to repay the ARC debt which will translate into healthy debt metrics. Reliance on debt going forward is also expected to be moderate as medium-term capex plans are proposed to be primarily funded from the planned qualified institutional placement (QIP) of Rs. ~400 crore approved by the Board of Directors, which is expected to materialise over the next few quarters.

The rating factors in PCL's long and established market position in the wires and cables business with a pan-India presence in the B2B segment, with a reputed clientele spread across various industries. Further exports to USA (B2C in nature), constituted 26%/50% of the revenues for FY2024/FY2023. PCL is amongst the major exporters of cables to USA from India. Domestic B2C domestic house wires sales are concentrated in Rajasthan and Delhi-NCR, apart from other adjoining states in North India – Haryana, Punjab and Gujarat. PCL has a diversified product portfolio of over ~25 distinct products and ~2,500 SKUs comprising mainly of power cables and house wires, railways cables and telecom cables. The ratings also derive comfort from the long track record of promoters in cables industry, and PCL's established brand presence.

The ratings also factor in the company's comfortable financial profile with a healthy net worth, resulting in comfortable debt indicators. The ratings, however, remain constrained by the vulnerability of company's operating profit margins to the intense competition faced by it from both organised and unorganised players along with the exposure to the volatility in the prices of key raw materials, and foreign exchange rates and continued expenses incurred towards plant repair and maintenance.

ICRA notes that the company's operations are also working capital intensive on account of the high inventory and receivable position. The ratings also factor in the intensely competitive wires and cables business, which leads to pricing pressure for all industry participants. Moreover, the ability of the company to secure working capital bank lines also remains a key monitorable which will enable revenue growth of the company in a working capital-intensive business.

The Stable outlook on the rating reflects ICRA's opinion that PCL will continue to report steady revenue growth, driven by constant capacity addition and continued debottlenecking/modernisation capex at existing plants, as well as healthy demand prospects. Further, ICRA does not expect the debt levels to increase materially, thereby keeping the debt coverage indicators at healthy levels and comfortable credit profile.

Key rating drivers and their description

Credit strengths

Established track record of promoters in the wires and cables market - The promoters have an established track record of operations of over three decades in the cables industry, and PCL has forged healthy relationships with its key customers, supporting its business prospects. PCL was established in 1955 by late Mr. Shyam Sunder Aggarwal. Over the past three decades, his sons - Mr. Sanjay Aggarwal (Chairman and CEO) and Mr. Sandeep Aggarwal (MD) have steered the company and expanded its business. They are assisted by the 3rd generation entrepreneurs within the family – Mr. Dhruv Aggarwal, Mr. Parth Aggarwal and Mr. Tushar Aggarwal, who are actively involved in the business alongwith the management team.

PCL also has Approvals from international agencies including Underwriters Laboratories USA and LPCB UK, and from various leading customers & Government Organizations like NTPC, PGCIL, DMRC MMRC, L&T, Siemens, Tata Power, ABB, BSNL, Reliance, Adani, Kalpataru, Hitachi, JSW Steel, etc.

Improving scale with healthy demand prospects – PCL's revenue increased by 31.49% on a YoY basis in FY2024 to Rs. 1047 crore, after reporting 37.1% YoY growth in FY2023 with revenues of Rs 796.47 crore. Revenues growth during H1FY2025 stood at ~44% (Rs. 665 crore in H1FY2025). Growth over FY2024-H1FY2025 has been driven by domestic power cables business. The company is witnessing robust demand for its products from various end-user industries such as power, telecom, real estate, railways, infrastructure, construction, defense, etc. ICRA expects the company to report revenue growth of ~15-20% YoY per annum over FY2025-FY2027.

Comfortable capital structure and coverage indicators-The company has a comfortable capital structure with a healthy net worth of over Rs. ~675 crore as on September 30, 2024 post equity infusion of Rs ~290 crore over Q4FY2023-FY2024. The company has repaid last tranche of debt from Invent ARC of Rs. 86 crore in H1FY2025, which it had acquired debt of four banks in 2016 with whom PCL had defaulted, and total settlement amount between PCL and Invent ARC was Rs ~189.9 crore. The company now has term debt of only Rs. 21.14 crore (including lease liabilities), and the company was net debt free (including encumbered cash) as on Sep-2024.

ICRA, however, notes that the company's operations are working capital-intensive, and would require incremental working capital limits to fund its growth over the medium term, which is a key monitorable. The company has comfortable debt coverage metrics with interest coverage ratio of ~17 times in FY2024 and ~20 times in H1FY2025. It is expected to be above ~10 times aleast over FY2025-FY2027, even after factoring in additional working debt which the company might avail.

Credit challenges

Profitability exposed to volatility in prices of key raw materials; subdued albeit improving margins - Alumunium, Copper, and PVC/XLPE are the primary raw material used to manufacture cables, forms over 80% of raw material cost. Though PCL revises cable prices based on fluctuations in raw material prices, delay in passing on the hike to customers adversely affects profitability, as also experienced by the company in the past due to fixed price nature of orders.

While, the order are typically short cycle in nature (~3-4 months), PCL has a policy for hedging ~100% of metal procurement for fixed price orders to avoid the risk of sharp fluctuations in raw material prices. However, sharp fluctuations in raw material prices can still impact the margins profile to a certain extent. PCL also hedges foreign exchange risk by booking forward contracts against export receivables.

Better product mix and economies of scale has led to pick up in OPM over FY2023-H1FY2025. OPM improved to 6% in FY2023 and further to 8.3%/8.5% in FY2024/H1FY2025 vs subdued levels of 3.2%/3.5% in FY2021/FY2022.

Elevated albeit improving working capital intensity -The company's operation are working capital intensive, resulting in high working capital intensity with NWC/OI at 34/41%% in H1FY2025/FY2024 (improvement from 46% in FY2022 as well as FY2021), due to high receivables and inventories. Receivables appear high partly due to significant sales in February-March 2024, for which the credit period granted to customers had not elapsed. Further, the company needs to maintain high inventory levels, given the range of products in which the company deals.

The company sells its products mainly through distributors in US and extends them an effective credit period of 75-90 days, including shipment lead time of ~60 days. Domestic sales are largely through direct B2B channel, wherein it offers a credit period of 30-90 days to its institutional clients. Working capital requirements are supported by customer invoice discounting.

Intense competition from both organised and unorganised players- The cables industry is inherently competitive with the presence of multiple large established players such as Havells India Limited, Polycab India Limited, Finolex Cables Limited, KEI Industries, RR Kabel Limited, etc., in addition to some competition from the unorganised sector, which limits its pricing flexibility and bargaining power with customers, exerting pressure on its revenues and margins. The presence of unorganized sectors is in house wires & cables segment which accounts for only ~5% of PCL's total revenue.

Liquidity position: Adequate

The company's liquidity profile is adequate with the presence of cash and bank balance of Rs. 6.22 crore and encumbered fixed deposits of Rs 33.11 crore as on August 31, 2024 (pledged against FB/NFB cash backed limits). Cash flow from operations is expected to be sufficient to meet working capital and interest payment requirements. Further there are nil repayment obligations in H2FY2025. PCL only has cash-backed OD facility of Rs 5 crore, and no other fund-based working capital facilities.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to maintain its working capital requirements at current levels and consistently improve its sales and profit margins while improving liquidity further on a sustained basis.

Negative factors – The ratings may be downgraded in case the company reports a decline in the operating income and margins on a sustained basis. Moreover, a larger than envisaged debt-funded capex and higher working capital requirements, which will increase the reliance on external debt and moderate the liquidity position can result in a negative rating action. Inability of the company to tie up working capital credit limits to support growth can also lead to downward revision in ratings. Increase in TOL/TNW to above 1.25 on a sustained basis can also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

The business of Paramount Cables was established in 1955. In the 1978, a new unit was established under the name of Paramount Cable Corporation which started supplying telecom cables to the Department of Telecommunications. Subsequently, it was converted into a public limited company in September 1994 as Paramount Communications Limited (PCL). Currently, PCL is engaged in manufacturing of power cables/house wires, telecom cables and railway cables. PCL operates through 2 manufacturing facilities situated in Khushkhera, Rajasthan and Dharuhera, Haryana. PCL holds various prestigious Indian and International accreditations and approvals including BIS, NTPC, PGCIL, EIL, RDSO, TEC, UL-USA, LPCB-UK, and also ISO 9001, ISO 14001, and ISO 45001.

Key financial indicators (audited)

Standalone	FY2023	FY2024	H1 FY2025
Operating income	796.47	1,047.28	665.42
PAT	47.77	85.39	45.45
OPBDIT/OI	6.0%	8.3%	8.5%
PAT/OI	6.0%	8.2%	6.8%
Total outside liabilities/Tangible net worth (times)	0.74	0.33	0.22
Total debt/OPBDIT (times)	3.53	1.34	0.19
Interest coverage (times)	6.69	16.88	19.67

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Unallocated Limits	Long Term	150.00	Apr 05, 2024	[ICRA]BBB- (Stable)	-	-	-	-	-	-
			Dec 03, 2024	[ICRA]BBB (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Unallocated Limits	Not Applicable

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term – Unallocated Limits**	-	-	-	150.00	[ICRA]BBB (Stable)

Source: Company

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

Annexure II: 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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