April 05, 2024

Paramount Communications Limited: Ratings assigned

Summary of rating action

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

**Instrument details are provided in Annexure-I; # Sublimit of TL*

Rationale

The ratings assigned factors in Paramount Communications Limited's (PCL) 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 50% of the revenues for 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 ~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 coverage indicators. The ratings, however, remain constrained by the company's relatively low operating profit margin profile on account of the intense competition faced by it from both organised and unorganised players along with the exposure of the profit margin to the volatility in the prices of key raw materials, and foreign exchange rates and continued expenses incurred towards plant repair and maintenance. While the margins are improving with increase in sales, the sustenance of the same remains to be seen.

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.

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 25.5% on a YoY basis in 9MFY2024 to Rs 736.17 crore (expected to reach Rs. ~1000 crore in FY2024), after reporting 37.1% YoY growth in FY2023 with revenues of Rs 796.47 crore. Growth in FY2023 was driven by entirely by exports (Rs 130 crore in FY2022 which increased to Rs 400 crore in FY2023; virtually all exports to US), while domestic revenues declined by 12% YoY. However, growth in 9MFY2024 has been driven by domestic power cables business (improved volumes as well as realisation), while the export sales have declined. 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 FY2024-FY2027.

Comfortable capital structure and coverage indicators-The company has a comfortable capital structure with an estimated healthy net worth of over Rs. ~600 crore as on March 20, 2024 post equity infusion of Rs ~317 crore over Q4FY2023-FY2024. The company has comfortable debt coverage metrics with interest coverage ratio of 6.7 times and DSCR of 2.45 times in FY2023, which have improved from 3.2 times and 1.07 times, respectively, in FY2022 with the improvement in profitability. While the DSCR is expected to moderate in FY2024 and FY2025, from FY2023 levels, due to sizeable debt repayments, the company has sufficient liquidity post equity infusion to comfortably meet debt obligations in FY2025 (Rs. ~60 crore debt repaid in FY2024 out of internal accruals supported by proceeds of equity infusion). DSCR is expected to be comfortable from FY2026 onwards. The above debt repayments are to Invent ARC, which 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.

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.

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 FY2023-9MFY2024. OPM improved to 6% in FY2023 and further to 8.3% in 9MFY2024 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 36% in FY2023 (improvement from 46% in FY2022), 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, V Guard Industries Limited, 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 liquid MFs of Rs. ~55 crore as on Feb 26, 2024 in addition to expected healthy cash flows from operations. Further, as on Feb 26, 2024, PCL had free cash and bank balance of Rs. 6.48 crore and encumbered fixed deposits of Rs 34.05 crore (pledged against FB/NFB cash backed limits). Hence the company is expected to meet its scheduled debt repayments of Rs ~86 crore in FY2025 partly from MF investments, and balance from internal accruals. PCL only has cash-backed OD facility of Rs 5 crore, and no other fun-based working capital facilities.

Rating sensitivities

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

Negative factors – The ratings may be downgraded if there is a larger than envisaged debt-funded capex and higher working capital requirements, which will increase the reliance on external debt and push up the TOL/TNW beyond 1.5 times on a sustained basis. Further, a decline in the operating income and margins on a sustained basis and moderation in the liquidity buffer can trigger a downgrade. Inability of the company to tie up working capital credit limits to support growth can also lead to downward revision in ratings.

ESG Risks

PCL is exposed to the risks arising from the tightening regulations on the environment and the safety front. These have necessitated the company to increase its investments towards meeting the evolving and the tighter regulatory standards. PCL has installed a sewage treatment plant to recycle water and reuse for gardening. It has also implemented rainwater harvesting tanks. The company also recycles plastics and metal wastes to reuse within its processes, as per disclosures made in its annual reports. Also, PCL has been able to mitigate the regulatory risks by demonstrating a sound operational track record.

PCL's success depends critically on seamless execution of its growth strategies by its capable and competent workforce. Failure to hire and retain talent pool having necessary competencies may impact the organizations' ability to maintain and expand its business operations, and consequently its profitability. However, as per disclosures made by PCL, its employee-friendly HR policies strive to create and maintain a safe, conducive and engaging work environment, while connecting individual efforts with the Company's long-term strategy and growth objectives. Further, customer satisfaction remains a key focus area for PCL's successful operations. Additionally, slowdown in infrastructure investments can lead to lower demand for cables and wires and thus lower sales, however, with PCL being diversified with respect to end-users as well as geography, this risk is mitigated to an extent. Therefore, while PCL remains exposed to the aforementioned risks, they do not materially affect its credit profile as of now.

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	FY2022	FY2023
Operating income	580.94	796.47
PAT	8.21	47.77
OPBDIT/OI	3.5%	6.0%
PAT/OI	1.4%	6.0%
Total outside liabilities/Tangible net worth (times)	1.58	0.74
Total debt/OPBDIT (times)	11.13	3.53
Interest coverage (times)	3.19	6.69

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

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of February 28, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 05, 2024	-	-	-
1	**Unallocated Limits**	Long term	150.00	--	**[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	**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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