

June 28, 2024

Siechem Technologies Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-others-fund based	116.00	150.50	[ICRA]A (Stable); Reaffirmed
Long term-term loan-fund based	62.50	30.00	[ICRA]A (Stable); Reaffirmed
Short term-others-non fund based	7.00	5.00	[ICRA]A1; Reaffirmed
Short term-others-interchangeable	(78.00)	(78.00)	[ICRA]A1; Reaffirmed
Total	185.50	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 as well as the entity's entry in the household wiring segment. 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.185 crore as of March end 2024 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 major 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. 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 ~12.65% in FY2024 against 19.0-25.5% prevailing between FY2019 and FY2021. Further with the entity's entry into the automobile and household wiring segments the pressure from competition is expected to increase bringing down margins. 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 new facility in the vicinity of the old plant. ICRA also notes that operations in the new facility was stalled in FY2024 due to delay in getting power connection however the same is available now and is expected to support revenue growth in current fiscal. 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.

Rating Outlook

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 stabilisation of the new facility.

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 improve their product profile, which in turn aided 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 however improvement has been realised with the top 10 customers contribution of sales reducing to 42% in FY2024 from 67% in FY22. 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. Since the rolling stock space is getting more competitive, the company is gradually increasing its revenue share in the automobile and solar sectors. In this context, ICRA notes that STPL is supplying e-beam cables to metro railway coach manufacturing segments and silicon cables to all the major EV players in the domestic market.

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 21% in FY2024. 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 13.5 times in FY2024. The net debt (total debt less cash, bank and liquid investments) of the company remained negative as on March 31, 2024. 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. However, with the entity's diversification in the customer base and customisation of products some comfort can be taken in the long-term. This is reflected in the addition of silicon cables in their product profile in order to cater to the EV industry.

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. With the entry of several new players in the e-beam cables segment in the recent years, the competition has increased, as a result of which the operating profit margins has moderated to ~11-13% since FY2022. 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 expected to be fully operational in current fiscal. Further with the entity’s expansion into new segments the margins are likely to remain muted similarly due to competition.

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 35% in FY2024.

Liquidity position: Strong

STPL’s liquidity profile remains **strong**, as reflected in the large free cash balance and liquid investment portfolio of around Rs.185 crore as of end-March 2024, 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.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if the operations of the recently commissioned second unit stabilises, leading to a material increase in scale and overall earnings, while maintaining healthy credit metrics and a strong liquidity profile.

Negative triggers – Downward pressure on the ratings could emerge if there is a significant decline in operating profit margins 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 a rating downgrade is a total debt/OPBDITA being greater 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 has currently increased 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	FY2022	FY2023	FY2024 [^]
Operating Income (Rs. crore)	483.1	742.6	856.7
PAT (Rs. crore)	45.5	72.3	71.4
OPBDIT/OI (%)	11.9%	13.1%	12.6%
PAT/OI (%)	9.4%	9.7%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5	0.3
Total Debt/OPBDIT (times)	0.6	1.5	1.1
Interest Coverage (times)	17.8	18.8	9.4

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 (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					June 26, 2023	Apr 06, 2023	-	Jan 06, 2022
1	Fund/Non-Fund Based	Long Term	-	-	-	-	-	[ICRA]A (Stable)
2	Fund based Facilities	Long Term	150.50	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3	Term Loans	Long Term	30.00	29.49	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
4	Interchangeable Limits ^{^^}	Long Term	-	-	-	-	-	[ICRA]A (Stable)
5	Interchangeable Limits ^{^^}	Short Term	(78.00)	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
6	Non-Fund Based	Short Term	5.00	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
7	Unallocated Facilities	Long Term/short Term	-	-	-	-	-	[ICRA]A (Stable)/[ICRA]A1

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	150.50	[ICRA]A (Stable)
NA	Term Loan	FY2024	NA	FY2027	30.00	[ICRA]A (Stable)
NA	Interchangeable Limits	NA	NA	NA	(78.00)	[ICRA]A1
NA	Non-Fund-Based Limits	NA	NA	NA	5.00	[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:

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