

## Varsha Cables Pvt Ltd

March 26, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	8.50	8.50	[ICRA]B+ (Stable); Reaffirmed
Non-fund based- Letter of Credit/Bank Guarantee	4.00	4.00	[ICRA]A4; Reaffirmed
<b>Total</b>	<b>12.50</b>	<b>12.50</b>	

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) for the Rs. 8.50-crore cash-credit facilities of Varsha Cables Pvt Ltd (VCPL or the company<sup>1</sup>). ICRA has also re-affirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 4.00-crore non-fund based facilities of the company. The outlook on the long-term rating is 'Stable'.

### Rationale

The rating reaffirmation continues to be constrained by company's modest scale of operations limiting its ability to benefit from economies of scale, impacting its competitive position and pricing flexibility vis-à-vis the larger entities. The ratings also consider below average financial risk profile of the company characterised by high gearing, weak coverage indicators and high working capital intensity. The ratings also limited by significant customer concentration with top five customers accounting for 81% of the revenues during FY2017. The ratings further consider the vulnerability of the margins to adverse movements in raw material prices.

The ratings; however, continues to positively factors in the established track record and long experience of the promoters in the wires and cable manufacturing industry. The reaffirmation also derives comfort from the established and reputed customer base resulting in repeat orders.

Going forward, the ability of the company to scale up operations while improving margins, improve its capital structure while managing its working capital requirements would remain the key rating sensitivities.

### Outlook: Stable

ICRA believes that the Varsha Cables Pvt Ltd (VCPL) will continue to benefit from extensive experience of the promoters in manufacturing of wires and cables. The financial profile of the company is likely to remain stable given its established customer base. The outlook may be revised to 'Positive' if substantial and sustainable growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. Conversely, the outlook may be revised to 'Negative' if cash accruals are lower than expected, or if any higher than anticipated capital expenditure, or stretch in working capital requirements weakens liquidity.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Long experience of the company in wires and cables industry** – The promoters of VCPL have several years of experience in the wires and cables industry. Mr. Puttaraju P Gowda, the Chairman and MD, is an electrical engineer with extensive work experience spanning several decades in the cable industry with Tata Power Company Ltd., and as a contractor for laying and maintenance of cables in Mumbai. Mr. Unnikrishnan Mundur, director, is an electrical engineer and an ex-employee of Tata Power Company Limited and the promoter of Allied Techno Service Private Limited, Mumbai.

**Reputed customer base across diversified product profile** – The company has a reputed customer base with clients like LAPP India Private Limited, Schneider Electric India Private Limited, Johnson Controls India Private Limited, Bharat Heavy Electricals Limited, and Bharat Electronics Limited etc.

### Credit challenges

**Modest scale of operations with weak capitalisation and coverage indicators** – The company's existing scale of operations is akin to a modest-sized company operating in wires and cables manufacturing industry. This constrains company's ability to benefit from economies of scale and limits its competitive position and pricing flexibility vis-à-vis the larger entities. The capital structure and coverage indicators of the company stood weak with gearing of 3.1 times, total debt/OPBDITA of 5.62 times, TOL/TNW of 4.31 times, interest coverage of 1.52 times and NCA/Total debt of 6.1% as on March 31, 2017.

**Significant customer concentration**– The customer concentration for the company remained high with top-five customers accounting for 73.5% of revenues during 6M FY2018, albeit moderated from 81.1% and 80.9% in FY2016 and FY2017 respectively. Nevertheless, the established relations of the company with its clients, results in repeat orders.

**Exposed to raw material price fluctuations** – The major raw materials are copper, aluminium, GI Sheets, XLPE and PVC granules, the prices of which are highly volatile in nature. Usually, the company quotes prices to its customers based on the latest raw material prices which is valid for 15 to 20 days. In case the customer responds after the given timeline, a revised quote is provided. From the time of receipt of purchase order to delivery, the company remains exposed to fluctuations in raw material prices. However, the small order to delivery timeline, which is less than a month in most of the cases, mitigates this risk to an extent.

**High competitive intensity** – The company faces stiff competition from other established players, which limits its pricing flexibility and bargaining power with its customers, thereby putting pressure on its revenues and profitability.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Varsha Cables Pvt Ltd (“VCPL”/the company) manufactures low tension copper and aluminium electrical cables. The company was established in 1995 by Mr. Puttaraju, its Chairman and Managing Director and Mr. B. Kumar, its Director. In 2009, the company divested part of its operations and the equity share of Mr. B. Kumar. The company has a manufacturing facility at Hebbal Industrial Area, Mysore with a manufacturing capacity of 12.50 million meters per annum, with an average capacity utilisation of 36.3% in FY2017. The company manufactures several kinds of wires and cables, varying from simple insulated copper wires to armoured, shielded and braided cables. The company has the capability to manufacture variety of wires and cables varying from 0.02 mm to 630 mm thickness and capable of handling up to 1100 kV of electricity.

In FY2017, the company reported a net profit of Rs. 0.2 crore on an operating income of Rs. 26.3 crore, as compared to a net profit of Rs. 0.2 crore on an operating income of Rs. 25.9 crore in the previous year.

## Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	25.9	26.3
PAT (Rs. crore)	0.2	0.2
OPBDIT/ OI (%)	9.1%	8.6%
RoCE (%)	11.1%	10.3%
Total Debt/ TNW (times)	3.3	3.1
Total Debt/ OPBDIT (times)	5.5	5.6
Interest coverage (times)	1.5	1.7
NWC/ OI (%)	34.9%	35.8%

Source: Company and ICRA Research

**Status of non-cooperation with previous CRA: None**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in	Date & Rating in FY2017		Date & Rating in	Date & Rating in
				in FY2018	January 2017	April 2016	FY2016	FY2015
1	Cash Credit	8.50	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+	-	[ICRA]B
2	Letter of Credit/Bank Guarantee	4.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	[ICRA]A4

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	8.50	[ICRA]B+ (Stable)
NA	Letter of Credit	NA	NA	NA	4.00	[ICRA]A4

Source: Varsha Cables Pvt Ltd

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