August 30, 2019

Signet Conductors Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Cash Credit	15.00	15.00	[ICRA]B+ (Stable); Reaffirmed
Long-term Term Loan	0.91	0.91	[ICRA]B+ (Stable); Reaffirmed
Short-term Non-fund Based	4.65	4.65	[ICRA]A4; Reaffirmed
Long/Short-term Unallocated	0.38	0.38	[ICRA]B+ (Stable)/A4; Re-affirmed
Total	**20.94**	**20.94**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's ratings reaffirmation takes into account the muted growth in Signet Conductors Private Limited's (SCPL) operating income (OI) in FY2019 (provisional), with cash accruals and debt protection metrics almost remaining at similar levels.

ICRA's ratings continue to consider SCPL's limited scale of operations in a highly competitive and fragmented conductor manufacturing industry that result in modest economies of scale and moderate profitability indicators. Also, the company's margins remain vulnerable to raw material price fluctuations. The ratings continue to be constrained by high gearing at 2.70 times in FY2019 due to the funding of working capital requirements, primarily through bank borrowings and a low net worth base of Rs. 3.54 crore in the same financial year. However, the ratings continue to derive comfort from the extensive experience of the promoters in the industry and the company's established client base. The ratings also take note of the healthy orders from reputed clients such as Bharat Heavy Electrical Limited (BHEL).

Going forward, the company's ability to increase its scale of operations, improve its operating margins as well as capital structure, and maintain optimal working capital intensity will be the key rating sensitivities.

Outlook: Stable

ICRA believes that the company will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if there is substantial increase in the its profitability margins alongside a decline in its debt levels. The outlook may be revised to Negative if the cash accrual is lower than expected, or there is any major decline in sales turnover, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Experienced promoters with long track record provides competitive edge – The partners of the company have experience of two decades. Such a long presence in the industry provides it a competitive edge in establishing relationships with its suppliers and customers.

Established relationship with large players provides better near-term revenue visibility – SCPL signed a contract with BHEL in FY2017 for the supply of paper-insulated copper conductors. This has resulted in healthy growth in revenues FY2018 onwards.

Credit challenges

Fragmented and competitive industry with several players – The conductor manufacturing industry is highly fragmented and competitive because of low technological complexity of the manufacturing process. This limits the pricing flexibility of smaller players like SCPL.

Weak financial risk profile – The company is dependent on external borrowings, which results in high gearing levels and weak coverage indicators.

Liquidity position

The company's liquidity position remains stretched as signified by high working capital utilisation level at 93% with cash and liquid fund of Rs. 0.16 crore in FY2019. Moreover, the current ratio of SCPL remained moderate at 1.16 times in the same financial year.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on standalone position of the company

About the company

SCPL was set up in 1991 by Mr. D.S. Sahni as a private limited company. It manufactures bare and paper-insulated aluminium and copper conductors. These conductors find application in electric motors, power generators and attenuators for transmission and distribution of power. At present, the affairs of the company are managed by Mr. G.S. Sahni. The promoters have more than two decades of experience in the industry. Its manufacturing facility is in Rewa, Madhya Pradesh and has a licensed capacity of 1,800 MTPA.

Key financial indicators (audited/provisional)

	FY2018 (audited)	FY2019 (provisional)
Operating Income (Rs. crore)	66.46	67.85
PAT (Rs. crore)	0.28	0.33
OPBDIT/OI (%)	2.57%	3.12%
RoCE (%)	11.93%	14.10%
Total Debt/TNW (times)	3.12	2.70
Total Debt/OPBDIT (times)	5.83	4.52
Interest coverage (times)	1.37	1.39

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					August 2019	June 2018	June 2017	May 2016
1	Cash Credit	Long-term	15.00	**-**	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]B+**
2	Term Loan	Long-term	0.91	**0.91**	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]B+ (Stable)**	**[ICRA]B+**
3	Non-fund Based	Short-term	4.65	**-**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
4	Unallocated	Long/Short-term	0.38	-	**[ICRA]B+ (Stable)/A4**	**[ICRA]B+ (Stable)/A4**	**[ICRA]B+ (Stable)/A4**	**[ICRA]B+/ 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 click here

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	15.00	[ICRA]B+ (Stable)
NA	Term Loan	April 2016	NA	March 2023	0.91	[ICRA]B+ (Stable)
NA	Non-fund Based	NA	NA	NA	4.65	[ICRA]A4
NA	Unallocated	NA	NA	NA	0.38	[ICRA]B+ (Stable)/A4

Source: Signet Conductors Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

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About ICRA Limited:

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