Rating Rationale

Delton Cables Ltd

15 Dec 2020

Brickwork Ratings assigns a long term rating for the Bank Loan Facilities of ₹ 3 Crores and upgrades the ratings for the Bank Loan Facilities of ₹ 82 Crores of Delton Cables Ltd, with a change in outlook from positive to stable.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Nov 2019)	Present
Fund based COVID-19 facility	-	3.00	Long Term	-	BWR BB+/Stable (Assigned)
Cash Credit	32.00	32.00	Long Term	BWR BB/Positive	BWR BB+/Stable (Upgrade)
Non Fund Based Existing BG/LC Proposed BG/LC	43.00 7.00	43.00 7.00	Short Term	BWR A4	BWR A4+ (Upgrade)
Total	**82.00**	**85.00**	Rupees Eighty Five Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Upgraded

The upgrade in the ratings of Delton Cables Limited (DCL or the company) factors in the improvement in its overall financial performance with increasing profitability. DCL generated adequate cash inflows, by selling its unviable units in FY19 for reduction in the working capital limits, statutory payments, payments to suppliers and incur routine capex in its existing unit. This resulted in improvement in its operational efficiencies and other financial parameters during FY20. Gearing ratio remains comfortable driven by adequate tangible net worth and absence of any term debt obligations. Further, despite COVID-19 impact, the company's turnover levels remain in line with its projections for FY21. It has adequate confirmed orders from the various government entities along with significant orders in the pipeline which reflects strong revenue visibility for FY21. The company's liquidity parameters remain comfortable with adequate unencumbered cash balances along with the availability of un-drawn working capital limits as on 30.11.2020. The ratings also factors in the experience management along with the established position of the company in this industry.

The ratings are however, constrained by the working capital intensive nature of operations driven by high inventory levels, susceptibility of profit margins to commodity price fluctuations and intense competition from other large players in this industry.

Description of Key Rating Drivers

Credit Strengths:

- **Increasing profitability margins of the company:** Post infusion of the promoters funds in March 2019, the company incurred capex on plant and machinery which improved its operating efficiencies thereby improving profitability. Due to availability of adequate cash inflows, the company managed to make purchases at competitive prices which also resulted in increasing profit margins in FY20. EBITDA and PAT margins of the company were 10.38% and 4.57%, respectively in FY20.

- **Comfortable gearing profile:** Gearing ratio continues to remain adequate at 1.18x in FY20 driven by adequate tangible net worth position with absence of any term debt position. DCL has not planned for any debt-funded capex and thus gearing is further expected to improve over the medium term.

- **Strong revenue visibility for FY21:** DCL has a strong order book leading to stable revenue visibility over the medium term. The company has orders to the tune of ~ Rs.22 Crs as on date and orders of Rs. 70 Crs is in pipeline which is expected to be confirmed soon. It has achieved a turnover of Rs. 56.04 Crs in H1FY21 despite COVID-19 pandemic and anticipates to achieve its projected turnover levels.

- **Adequate liquidity position of the company:** The net cash accruals of the company stood at Rs. 7.18 Cr against negligible fixed debt obligation in FY20. Further, the company has not planned for any major debt-funded capex and thus its liquidity position is expected to remain adequate for FY20. It's debt comprises working capital limits availed from its lenders which is moderately utilised. Cash and cash equivalents also remain adequate at Rs 7.21 Crs as on 30 Sep 2020.

- **Experienced promoters with established track record:** DCL is headed by Mr. V.K. Gupta, who is the Chairman of the company and has an experience of over 42 years in the cable manufacturing industry. Mr. Vivek Gupta, his son, oversees day-to-day affairs of the company and its management. He has a key role in assessing the market and is actively involved in developing the marketing network for the company's products. Ms. Shriya Gupta, Mr. Gupta's daughter, looks after the business development aspects of the company.

Credit Risks:

- **Working capital intensive nature of operations:** Conversion cycle of the company remained high at 167 days as on 31 March 2020 (though improved from 249 days in FY19). Inventory days were high at 161 days in FY20 as majority of its orders are from government entities which involves elongated processes including raw material inspection, preservation & packing, final inspection, dispatch to site etc. The credit cycle with its client also remains high at 80-90 days.

- **Intense Competition:** DCL continues to face intense competition from other large cable manufacturing players in the market. DCL is also exposed to cyclicality in its end-user industry mainly infrastructure sector, as its demand-supply mechanism would directly affect the Company's revenue growth and profitability.

- **Susceptibility of margins to copper price fluctuations:** DCL's profit margins are susceptible to any significant increase in the prices of copper, which is the key raw material required for manufacturing cables and other related products.

Rating Sensitivities

Positive: The company's ability to achieve turnover and profitability levels as projected and subsequently, interest coverage ratios to at least 2x, along with maintaining its present adequate liquidity position and maintain its working capital limit utilization to modest levels over the medium term, will be positive for the ratings.

Negative: Significant decline in its turnover and profitability margins due to the coronavirus outbreak and consistent increase in inventory position could impact its credit metrics over the medium term and thus, will be negative for the ratings

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

Brickwork Ratings (BWR) believes DCL's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term. The rating outlook may be revised to Positive in case the company is able to sustain growth in its turnover and profitability levels amidst the coronavirus pandemic, improve its interest coverage ratio and debt coverage metrics and maintain its present adequate liquidity position despite reflecting a high working capital cycle period over the medium term. The rating outlook may be revised to Negative if the turnover decreases and profit margins show lower-than-expected figures

About the Company

Delton Cables Limited (DCL), incorporated in 1964 by Lt. Sh. R.K. Gupta as a private limited company and later, was converted into a public limited in 1981. Presently Sh. V.K. Gupta (s/o Lt. Sh. R.K. Gupta) is the promoter, and the company is listed on Bombay Stock Exchange. It is engaged in the manufacturing of wires and cables, power cables, radio high frequency cables & PVC compound. It is also into the manufacturing of switch gears. It sells products under its own brand name - 'DELTON'.

Company's Financial Performance:

Particulars	Units	2020 (A)	2019 (A)
Net Sales/Revenues	₹ Cr	125.74	72.02
EBITDA	₹ Cr	12.09	0.44
PAT	₹ Cr	5.89	50.38
Tangible Net Worth	₹ Cr	54.49	49.08
Total Debt : TNW	Times	0.86	1.18
Current Ratio	Times	1.38	1.35

Rating History for the last three years (including withdrawal and suspended)

	Date	Facilities	Amt Rs. Cr	Rating
Current Rating	**10 Dec 2020**	FB	35.00	BWR BB+/Stable (Upgrade)
		NFB	50.00	BWR A4+ (Upgrade)
Rating History^ (Rs. Crs)	**20 Nov 2019**	FB	32.00	BWR BB/Positive (Reaffirmed)
		NFB	50.00	BWR A4 (Reaffirmed)
	05 April 2019	FB	32.00	BWR BB/Positive (Reaffirmed)
		NFB	50.00	BWR A4 (Reaffirmed)
	2018	FB	32.00	Rating Not Reviewed
		NFB	50.00	Rating Not Reviewed
	12 Dec 2017	FB	32.00	BWR BB-/Negative
		NFB	50.00	BWR A4

Status of non-cooperation with previous CRA (if applicable)- N.A.

Any other information: Nil

ANNEXURE I
Details of Bank Facilities rated by BWR

S. No.	Name of the bank	Type of Facilities	Long term (Rs. Crs)	Short Term (Rs. Crs)	Amt. Rated (Rs. Cr)
1.	Canara Bank	**Fund Based** Cash Credit WCDL	7.68 11.52	-	**19.20**
2.	Punjab National Bank	Cash Credit	6.40	-	**6.40**
3.	Federal Bank	Cash Credit	6.40	-	**6.40**
4	Consortium members	COVID-19 facility	-	3.00	**3.00**
5.	Canara Bank	**Non Fund Based** LC/BG	-	30.00	**30.00**
6.	Punjab National Bank	LC/BG	-	10.00	**10.00**
7.	Federal Bank	LC/BG	-	3.00 (sanctioned) 7.00 (proposed)	**10.00**
Total (Rs. Crs)			**-**	-	**85.00**

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

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