



## Rating Rationale

20 Nov 2019

### Delton Cables Limited

**Brickwork Ratings reaffirms the ratings for the bank loan facilities aggregating Rs. 82 Crores of Delton Cables Limited ('DCL' or 'the Company').**

#### Particulars

Facility#	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present		Previous	Present
<b>Fund Based</b> Cash Credit	<b>32.00</b>	<b>32.00</b>	<b>Long Term</b>	<b>BWR BB</b> (Positive)	<b>BWR BB</b> (Positive) (Reaffirmed)
<b>Non Fund Based</b> LC/BG Proposed LC/BG	<b>43.00</b> -	<b>43.00</b> <b>7.00</b>	<b>Short Term</b>	<b>BWR A4</b>	<b>BWR A4</b> (Reaffirmed)
<b>Total</b>	<b>75.00</b>	<b>Rs. 82.00 Crores (INR Eighty Two Crores Only)</b>			

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#Facility-wise details of bank limits are available in Annexure I

#### RATING ACTION/OUTLOOK

The outstanding ratings of Delton Cables Limited has been reaffirmed on account of improvement in its financial performance during H1FY20, comfortable gearing driven by adequate tangible network against existing debt position. DCL was able to consolidate all its units under one roof which enabled it to improve its operational efficiencies in the current financial year. BWR notes that the Company's liquidity position improved post infusion of funds by the promoters in March 2019 in order to clear statutory dues and meet its working capital requirements.

These strengths are partially offset by the Company's working capital intensive nature of business and overall slowdown in market demand coupled with intense competition with other larger players.

#### OUTLOOK: POSITIVE

DCL's outlook is continued to remain positive considering improvement in its liquidity profile post March 2019. DCL was able to achieve a turnover of ~ Rs. 56.71 Cr during H1FY20 as against Rs. 18.40 Cr in H1FY19. The management has articulated that they had received confirmed orders from various



PSU's and other large entities and thus expects to achieve its projections submitted. BWR believes that the Company's financial performance is likely to sustain in the next two quarters. BWR may revise its rating outlook to 'Stable' if DCL fails to achieve its turnover and profitability levels as projected for FY20.

## KEY RATING DRIVERS

### Credit Strengths:

**Experienced promoters with established track record:** Delton Cables Limited (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. V.K. Gupta 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, has joined the business as Vice President, after completion of her studies and is now looking after the business development aspects of the company.

**Continuous improvement in its turnover levels:** DCL has achieved a turnover of Rs. 56.71 Crs in H1FY20 as against Rs. 18.40 Crs for H1FY19 and is further targeting a turnover of over Rs. 150 Crs for FY20 considering confirmed orders received from various PSU's during the current financial year.

**Comfortable gearing profile:** Post infusion of additional funds of over Rs. 90 Crs by the promoters, gearing ratio of the Company improved to 1.18x during FY19 and further to 0.75x during H1FY20. Promoters raised funds by selling its non core assets and unviable units during FY19. DCL also brought down its overall working capital limits utilization to below average 50% over the past 6 months. DCL has not planned for any debt-funded capex and hence gearing is expected to improve further over the medium term.

**Improvement in its operational efficiencies:** After consolidating its all units under one roof at Faridabad, DCL has managed to cut down its operational expenditures such as salary, power & fuel, other admin expenses etc. This improved operational efficiencies and resulted in annual savings from FY18 onwards.

### Credit Risks

**Working capital intensive nature of operations:** Cash conversion cycle of the Company remains high at 249 days as on 31 March 2019 owing to increasing unsold inventories and high receivables position. There was also a delay in making payment to its suppliers due to non availability of funds for its working capital during FY19. However, post March 2019, the situation has improved and DCL expects to improve its cash conversion cycle to 115 days.

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



## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has considered the standalone performance of Delton Cables Limited. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

## **RATING SENSITIVITIES**

BWR also notes that its scale of operations remains moderate owing to temporary liquidity issues faced during FY18 and FY19. However, DCL promoters infused additional funds to repay its pending dues and meet its working capital requirement. Thus, the ability of the Company to improve its scale by increasing turnover & profitability levels and improve other coverage indicators over the medium term remains the key rating sensitivity.

**Positive:** The rating may be upgraded if, inter alia, the Company is able to achieve its projected turnover and profitability levels, subsequently improve its interest coverage ratios and debt protection metrics to 3x and 2x, respectively, timely disbursement of the enhanced non-fund based limits for supporting its working capital requirements and maintain its gearing ratio to below 1x over the medium term.

**Negative:** The rating may be downgraded if DCL fails to achieve its projected turnover and profitability levels and working capital cycle to remain stress over the medium term

## **LIQUIDITY POSITION**

DCL's liquidity position improved significantly as promoters raised funds of over Rs. 90 Crs by selling its non core assets and unviable unit during FY19. This provided additional liquidity support to the Company. Subsequently, the overall CC limit utilization levels is brought down to average ~ 50% over the past six month ended Sept 2019. DCL also started generating positive cash accruals from its operations during the current financial year. DCL has reported a positive cash accrual of Rs. 3.18 Cr in H1FY20 as against cash loss of Rs. 12.59 Cr during FY18. DCL also submitted a proposal for the tie up of remaining non-fund based limits of Rs. 7 Cr to the Federal Bank (one of the consortium members) which is likely to be sanctioned within this quarter and hence, the availability of the said limits will provide additional liquidity to source its working capital requirements. As per the audited FY19 financials, DCL has reported unencumbered cash & cash equivalent of Rs. 41.47 Cr (including fixed deposits receipts)

## **COMPANY PROFILE**

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

## FINANCIAL PERFORMANCE

Particulars	FY18 (A)	FY19 (A)
Total Operating Income (Rs. Crs)	74.47	72.02
EBITDA (Rs. Crs)	-3.45	0.44
PAT (Rs. Crs)	-13.10	50.38
Total Tangible Net worth (Rs. Crs)	-0.97	49.08
Total Debt to Equity Ratio (times)	-71.80	1.18
ISCR (times)	-0.29	0.04

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years (including withdrawn/suspended ratings)**

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amt (₹ Crs)	Rating	05 April 2019	12 Dec 2017	18 Oct 2016
1	<b>Fund Based</b> Cash Credit	Long Term	32.00	<b>BWR BB</b> (Positive)	<b>BWR BB</b> (Positive)	<b>BWR BB -</b> (Negative)	<b>BWR BB -</b> (Negative)
2	<b>Non Fund Based</b> LC/BG Proposed LC/BG	Short Term	43.00 7.00	<b>BWR A4</b>	<b>BWR A4</b>	<b>BWR A4</b>	<b>BWR A4</b>
	<b>Total</b>		<b>82.00</b>	<b>₹ Eighty Two Crores Only</b>			

**#Annexure I**

**Details of Bank Facilities rated by BWR**

S No.	Name of the Bank	Type of Facility	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	Canara Bank	Cash Credit WCDL LC/BG	7.68 11.52 -	- - 30.00	<b>49.20</b>
2	Punjab National Bank	Cash Credit LC/BG	6.40 -	- 10.00	<b>16.40</b>
3	Federal Bank	Cash Credit LC/BG	6.40 -	- 3.00	<b>9.40</b>
4	Proposed Limits	LC/BG	-	7.00	<b>7.00</b>
<b>Total</b>			<b>32.00</b>	<b>50.00</b>	<b>82.00</b>

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short term Debt](#)
- [Manufacturing Companies](#)

Analytical Contacts	Investor and Media Relations
<p><b>Peeush Middha</b> Assistant Manager - Ratings +91 172 5032295 peeush.m@brickworkratings.com</p> <p><b>Ashwini Mital</b> Director - Ratings +91 172 5032295 ashwini.m@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications M : +91 84339 94686 liena.t@brickworkratings.com</p>



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