

Rating Rationale

May 11, 2023 | Mumbai

Dynamic Cables Limited*Rating outlook revised to 'Positive'; Ratings Reaffirmed***Rating Action**

Total Bank Loan Facilities Rated	Rs.230 Crore
Long Term Rating	CRISIL BBB+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank loan facilities of Dynamic Cables Limited (DCL) to ' **Positive**' from 'Stable' while reaffirming the rating at '**CRISIL BBB+**'; short-term rating has been reaffirmed at '**CRISIL A2**'.

The outlook revision reflects expectation of sustained improvement in DCL's credit profile, led by healthy and sustained growth in revenue and improved operating profitability margin, resulting in healthy cash accrual. Company's operating income is expected to grow by around 17% y-o-y to around Rs 660 crore in fiscal 2023, which is backed by better product mix and increased volume. Company has been focusing on improving both its institutional sales and export sales and is also working on new product development. Growth in operating income should sustain over the near-to-medium term aided by healthy demand prospects, a diversified product portfolio, offtake from new products and a strong order book (Rs.324.71 crores as on May 01, 2023). Operating margin is steady; it is expected to be in the range of 9.0% - 10.0% in fiscal 2023, lower than expectation, and expected to improve to around 10% - 11% going ahead backed by better product mix, increasing contribution of premium products and price pass through. Company has sound risk management policies in place which has helped in managing the working capital cycle well and also resulted in reduction in debt levels. Company has healthy operating efficiencies as reflected in Return on Capital Employed (RoCE) expected to be over 20% in fiscal 2023. Capital structure is also comfortable, marked by low gearing and strong networth and comfortable debt protection metrics. Sustenance of healthy growth in revenue and improved operating margin remain key rating monitorables.

The ratings reflect DCL's strong financial risk profile and a moderate business risk profile aided by diversified product basket, geography, clientele, and prudent risk management practices. These strengths are partially offset by working capital intensive nature of operations and exposure to intense competition.

Key Rating Drivers & Detailed Description

Strengths:

Moderate business profile: DCL's promoters have an extensive industry experience of over three decades in conductors and cable industry. Over the years, promoters have developed a sound understanding of market dynamics and healthy relations with customers, suppliers. Company's market position is supported by necessary approvals in place, continuous expansion in its customer and product base and consequently a diversified customer base and product mix.

DCL caters to all major players in the power segment. It caters to a wide number of clients with top 10 customers contributing around 60-65% of the revenue. Company also derives ~10% of its revenue from exports.

Company has continuously moved up the value chain with increasing revenue contribution from low-tension and high-tension cables which contributed to ~90% of revenue in 9M FY23 (as against 62% in fiscal 2018); conductor segment contributed to ~5% of revenue during this period (as against 38% in fiscal 2018). The increasing revenue share from newly developed products also supports the business risk profile. DCL has also lowered its reliance on direct government entities' work to ~25% of its turnover now as against 50-55% around 5 years back. Further, the company has a fairly diversified presence in domestic market.

Company's operating income is expected to be around Rs 660 crore in fiscal 2023, ~17% y-o-y growth which is backed by better product mix, higher volumes and higher average aluminium prices. Company has been focusing on improving both its institutional sales and export sales and is also working on new product development. Growth in operating income should sustain over the near-to-medium term aided by healthy demand prospects, a diversified product portfolio, offtake from new products and a strong order book (Rs.324.71 crores as on May 01, 2023).

Prudent risk management practices: DCL follows prudent risk management strategies to mitigate the risks associated with its business. Its inventory is totally against the orders in hand. Long term contracts carry price escalation clause to cover the fluctuation in raw material price. The customer profile is well diversified. DCL extends clean credit only to government owned power utilities and large private sector companies; rest all sales are on LC basis or cash basis or low credit period. The company has also obtained Credit Insurance that guarantees recovery of receivables. Company also fully covers its forex through forward contracts. Company has healthy operating efficiencies as reflected in RoCE expected to be over 20% in fiscal 2023.

Strong financial profile: Company has a robust network, expected to be around Rs 175-180 crore as on March 31, 2023, backed by healthy accretion to reserves. Continuous reduction in debt levels along with strong network has kept the capital structure healthy; gearing and total outside liabilities to adjusted network (TOLANW) ratio are expected to be around 0.5 time and around 1.2 times as on March 31, 2023 (PY: 0.61 time and 1.46 times, respectively). Moreover, with improved EBITDA levels, the coverages improved with Adjusted debt/EBITDA at 1.5 times (PY: 5.8 times); Adjusted debt/EBITDA is projected to be around 1.5 times in FY2023. Interest cover and net cash accruals to adjusted debt (NCAAD) are expected to be around 4.4 times and around 0.4 time respectively in fiscal 2023. Company does not have any major debt-funded capex plans going forward. DCL's financial profile is expected to continuously improve supported by improved profitability and expected moderation in debt levels.

Weaknesses:

Working capital intensive operations: DCL's operations are working capital intensive as reflected in gross current assets (GCA) of around 170 days (expected) as on March 31, 2023, driven by debtor and inventory days of around 100-105 days and around 60 days, respectively. However, these are adequately supported by net cash accruals, working capital limits and by creditors (expected to be around 75-80 days as on March 31, 2023).

Exposure to intense competition: The industry is marked by presence of many organized and unorganized players with intense competition which restrains the ability of players to command pricing and grow rapidly thereby also constraining the profitability. Also, profitability remains vulnerable to any sharp and sudden commodity price fluctuations. Furthermore, the volumes are yet to surpass the pre-pandemic levels as the consumption of key raw material during fiscal 2023 is lower as compared to that in fiscal 2020.

Liquidity: Adequate

Company's liquidity profile is supported by cash and cash equivalents of nearly Rs 37 crore as on December 31, 2022 (Rs 26.2 crore as on March 31, 2022). The bank limits are sparingly utilized with bank limit utilization averaging at 31% over 12 months ended March 2023, translating into an average cushion exceeding Rs 100 crores. Company is expected to generate net cash accruals of Rs 35-40 crore which will be more than adequate against repayments of around Rs 7.8 crore in fiscal 2023. Going forward, company is expected to generate net cash accruals of Rs 45-60 crore per year against yearly repayments of Rs 7-8 crore. Moreover, the company does not have any major debt-funded capital expenditure plans in the medium term. DCL plans to incur about Rs 5-7 crore per year on maintenance and routine capex going forward, which is planned to be incurred from internal accruals. Unsecured loans are projected to be around Rs 5 crore as on March 31, 2023. Current ratio is projected to be nearly 1.7 times as on March 31, 2023. Dividend payout is projected to be around Rs 1.1 crore (5% of paid-up capital) for fiscal 2023.

Outlook: Positive

CRISIL Ratings believes DCL will continue to benefit from the improving scale of operations and improved operating margin, as well as from the extensive experience of its promoters and established relationships with clients.

Rating Sensitivity Factors

Upward factors:

- Sustained improvement in scale of operations to around Rs.750 crore and steady operating margin of around 10% leading to healthy net cash accruals
- Sustenance of financial risk profile and working capital cycle

Downward factors:

- Operating margin declining below 8.5% or pressure on topline indicating deterioration in business profile
- Stretch in working capital cycle or large debt funded capex adversely affecting the financial risk profile, particularly liquidity profile

About the Company

DCL was established as partnership firm in 1986 as Dynamic Engineers by the Mangal family, and later in 2007 the firm was converted into a private limited. Further in 2017, it became public limited with the current name. The company engaged in manufacturing of conductors and cables which include manufacturing of LV, MV and HV power cables, aerial bunches cables, aluminum conductors (steel reinforced, and all aluminum alloy conductors), railway signaling cables. It has 3 manufacturing facility located in Jaipur- Rajasthan and managed by Mr. Rahul Mangal and his brother Mr. Ashish Mangal.

Company achieved revenue of Rs.490.17 crore with net profit of Rs.21.03 crore during the nine months ended December 31, 2022 as against Rs 390.91 crore with net profit of Rs.22.42 crore during the corresponding period in previous year.

Key Financial Indicators

As on/for the period ended March 31	Unit	2022	2021
Operating income	Rs crore	564	343
Reported profit after tax	Rs crore	31	10
PAT margins	%	5.5	2.9
Adjusted Debt/Adjusted Networkth	Times	0.61	1.3
Interest coverage	Times	4.7	2.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity Level	Rating assigned With outlook
NA	Bank Guarantee	NA	NA	NA	85	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	58.4	NA	CRISIL BBB+/Positive
NA	Credit Limit Under Gold Card	NA	NA	NA	4	NA	CRISIL BBB+/Positive
NA	Letter of Credit	NA	NA	NA	70	NA	CRISIL A2
NA	Long Term Loan	NA	NA	Mar-2025	12.6	NA	CRISIL BBB+/Positive

Annexure - Rating History for last 3 Years

Current				2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	75.0	CRISIL BBB+/Positive		--	28-02-22	CRISIL BBB+/Stable		--		--	Suspended
			--		--	17-02-22	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	ST	155.0	CRISIL A2		--	28-02-22	CRISIL A2		--		--	Suspended

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	85	Bank of Baroda	CRISIL A2
Cash Credit	58.4	Bank of Baroda	CRISIL BBB+/Positive
Credit Limit Under Gold Card	4	Bank of Baroda	CRISIL BBB+/Positive
Letter of Credit	70	Bank of Baroda	CRISIL A2
Long Term Loan	12.6	Small Industries Development Bank of India	CRISIL BBB+/Positive

This Annexure has been updated on 11-May-2023 in line with the lender-wise facility details as on 17-Feb-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
CRISILs Approach to Financial Ratios
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for rating short term debt

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