



Wire and Cable Sector Risk Index

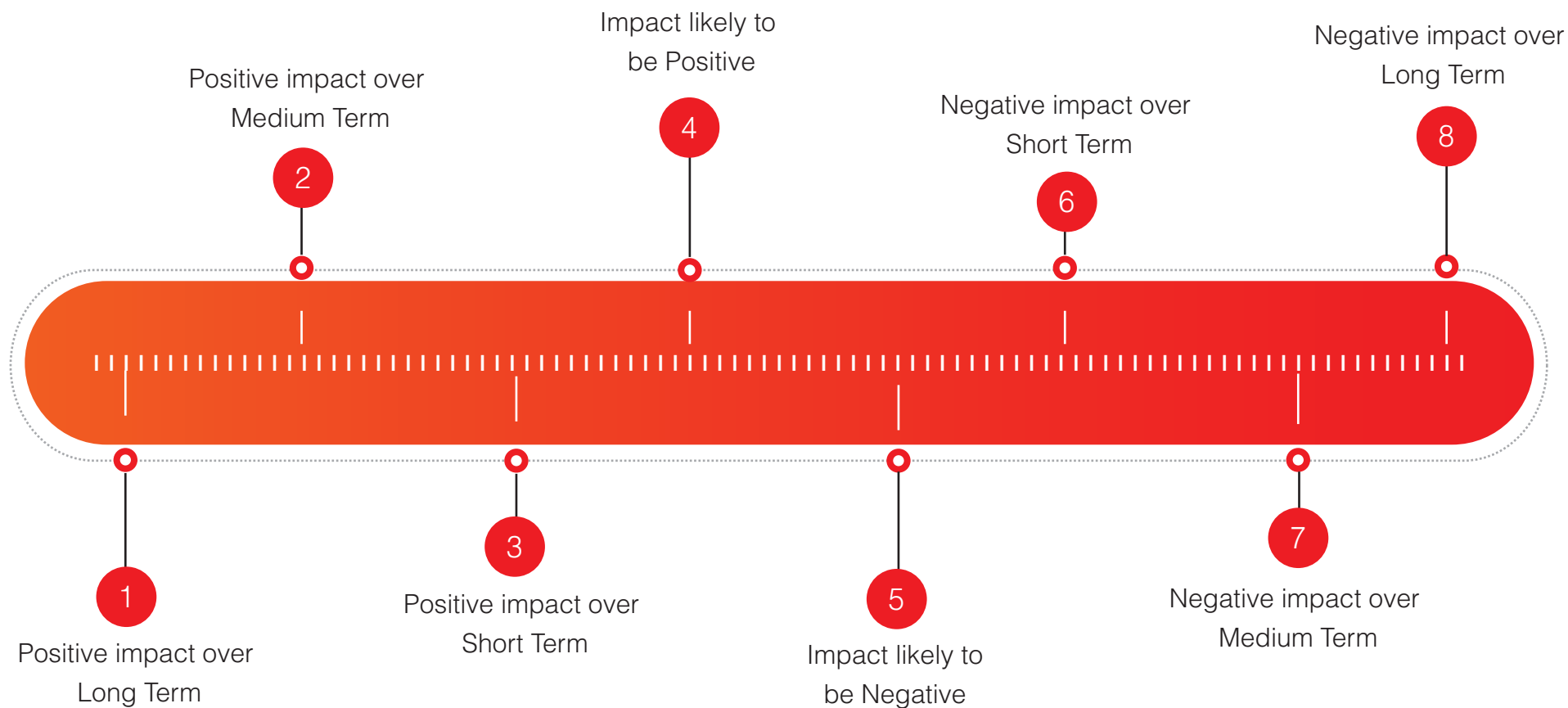
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Explanation of Sector Risk Index

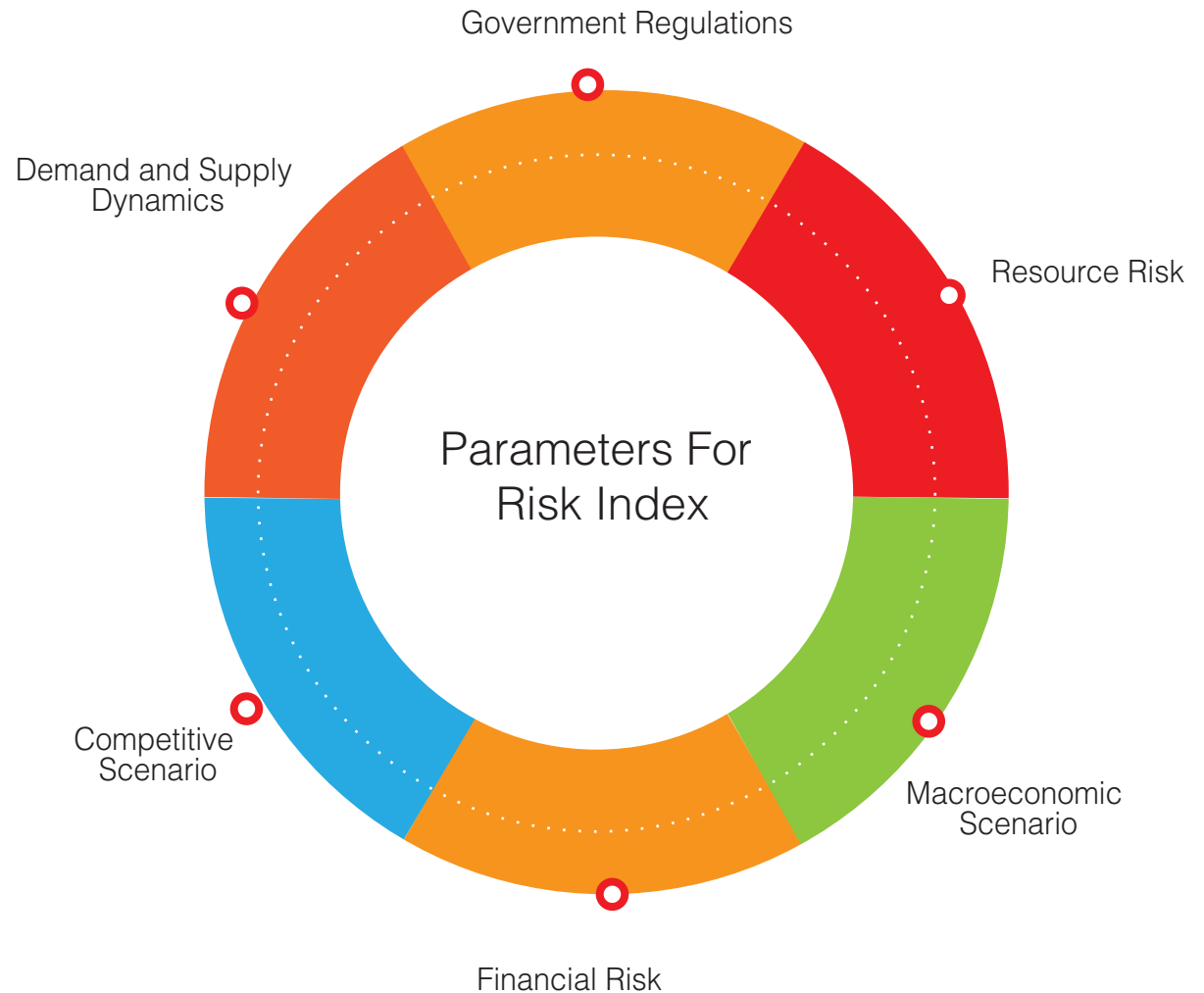
Sector Risk Index reflects the effect that various factors shall have on the business prospects and operating environment of a sector over the next 12 months. The risk index arrived at is an aggregate of the individual scores assigned to the relevant sector parameters-identified.

The scores have been graded on an 8 point scale with 1 indicating low risk and 8 indicating high risk.

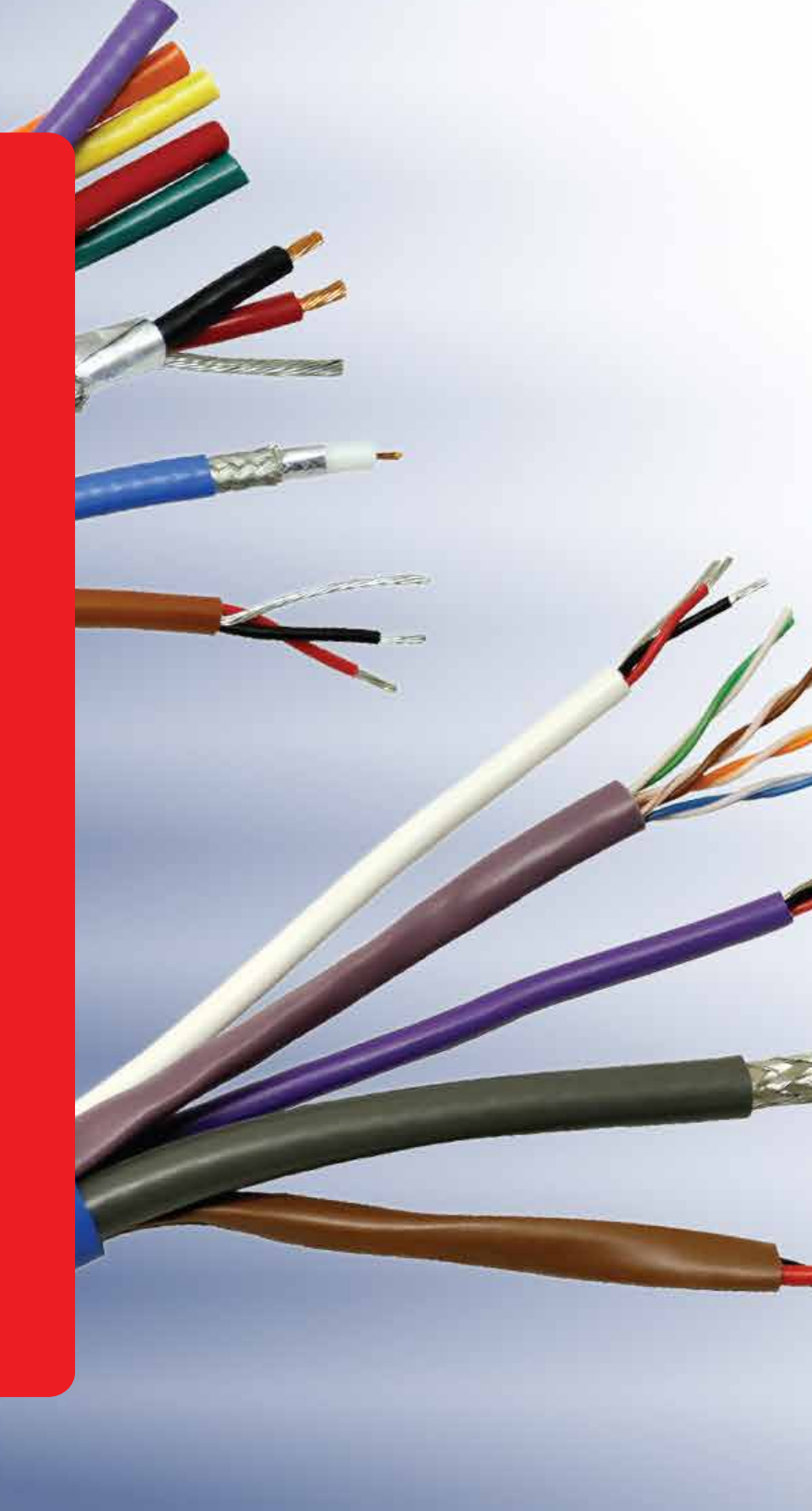


Parameters for Sector Risk Index

The selected parameters are government regulations, demand supply dynamics, competitive scenario, macro-economic variables, resource risk and profitability and cost structure. The scores given to individual parameters reflect the extent of positive/negative impact on the business operating environment.



Wire and Cable Sector of India is expected to grow at a compound annual growth rate (CAGR) of 7-8% during the period FY 2014–19 due to increasing demand from power, telecommunication and real estate sectors in the country.



Risk Index of Wire and Cable Sector



↔ Demand and Supply Dynamics

Due to the development activities in power, telecommunication and real estate sectors in India, the wire and cable sector of the country is likely to grow by 7-8% during the period FY 2014–19.

↑ Macro Economic Scenario

In FY 2014–15 India's gross domestic product (GDP) has shown a growth rate of 7.29% compared to 6.90% in FY 2013–14.

↓ Resource Risk

India's wire and cable sector has high dependency on import of the raw material which increases its resource risk as well as currency fluctuation risk.

↔ Competitive Scenario

The availability of organised players with 65% market share, the competition in wire and cable sector will remain stable.

↓ Financial Risk

High receivables period and low interest coverage may lead to weak liquidity position and increase financial risk burden for the players in the sector.

↔ Government Regulations

Under the import policy notes, the basic customs duty in FY 2014–15 on wire and cable remained stable at 7.50% with additional countervailing duties (CVD) of 12.00% and special CVD of 4.00%.

Executive Summary

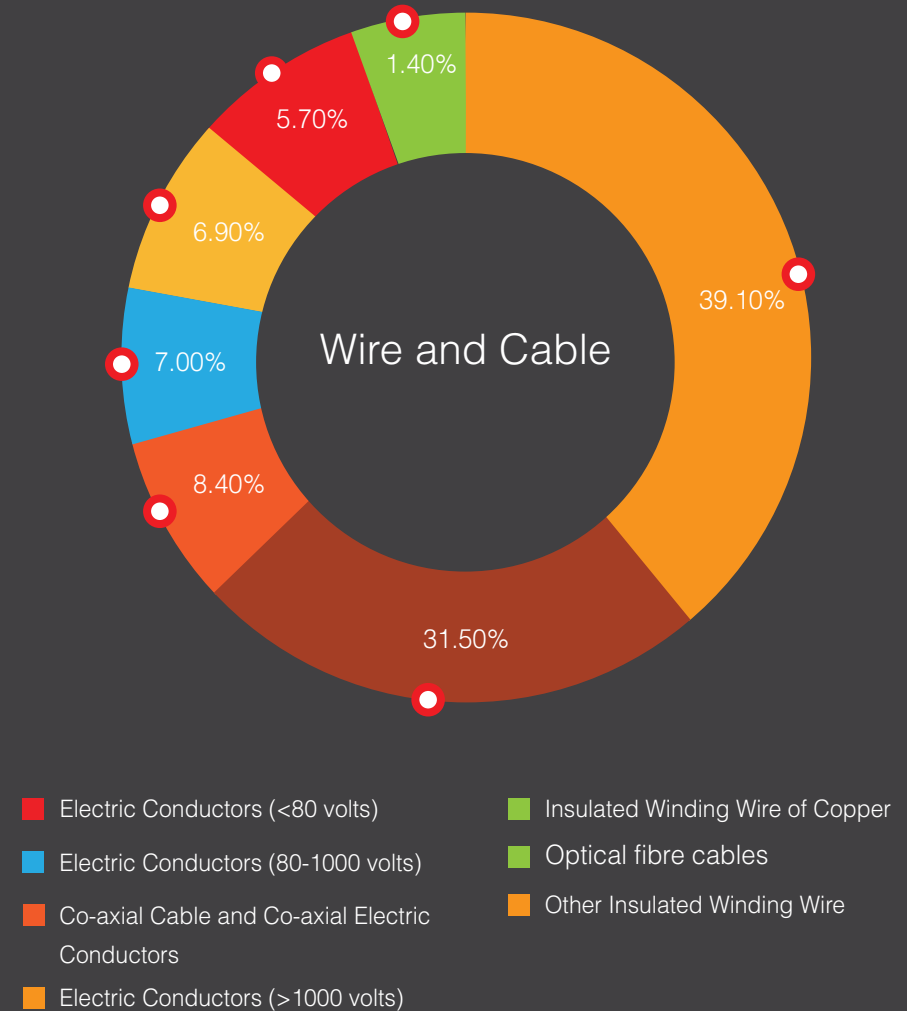
- 1** Globally, the wire and cable sector has been dominated by China, USA, Japan, UK and South Korea, where China is the top manufacturer and exporter of the sector in the financial year 2013–2014 (FY 2013–14).
- 2** India, with a market size of approximately United States Dollar (USD) 3.39 billion in FY 2013–14, holds the sixth largest potential market for the wire and cable sector worldwide after China, USA, Azerbaijan, Turkey and Lithuania.
- 3** The wire and cable sector in India, being a net importer sector, is dependent on imports from China, UAE, Russia and Japan.
- 4** The wire and cable sector is organised in nature due to the availability of limited number of players in the market, which controls the competition in the market.
- 5** The favourable factors such as the recovery in India's economy and the planning of the government to increase the development activities in the area of power, telecommunication and real estate, may accelerate the growth rate in the sector of wire and cable.

Product Profile

1 The wire and cable sector is classified as per the requirement of the end user, such as power cable, wire and cable for electrical equipment, winding wire, exposed wire, communication cable and wire and cable accessories.

2 Presently, global market of insulated wire and cable consists of electric conductors up to 1000 volts with 70.60% of the global demand and the remaining proportion of 29.40% is comprised co-axial cable and co-axial electric conductor, electrical conductors more than 1000 volts, insulated winding wire of copper, optical fibre cables and other insulated winding wire.

Figure 1. Product Profile of Wire and Cable



Macro Economic Analysis

Macro-Economic Growth

- 1** After showing a GDP growth rate of 5.08% in FY 2012–13 and 6.90% in FY 2013–14, India's economy is on the path to recovery and has shown a growth rate of 7.29% in FY 2014–15.
- 2** The government is also planning to support manufacturing in India with better foreign-trade relations and making industry friendly environment.
- 3** Furthermore, the incumbent government has been focusing on the power, telecommunication and infrastructure sectors that will accelerate the growth of the wire and cable sector in the coming FYs.

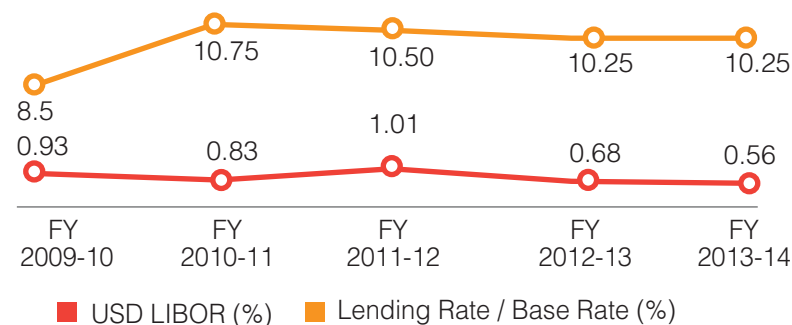
Interest Rate Risk

The interest rates in the international markets, have been low in FY 2013–14 compared to FY 2009–10.

The domestic interest rate decreased in FY 2012–13 over FY 2011–12 and remained stable in FY2013–14, whereas international interest rate reached at the lowest levels in FY 2013–14 compared to the preceding five years since FY 2009–10, which have been providing a relief in the borrowing cost to the companies dependent on the Indian or outside sources of funds.

A lower financing cost may provide an advantage to increase the net profit margin or price competitiveness in the market.

Figure 2. Interest Rate Trends (Domestic and International)



Source: www.bloomberg.com



Macro Economic Analysis

Figure 3. Interest Rate Risk

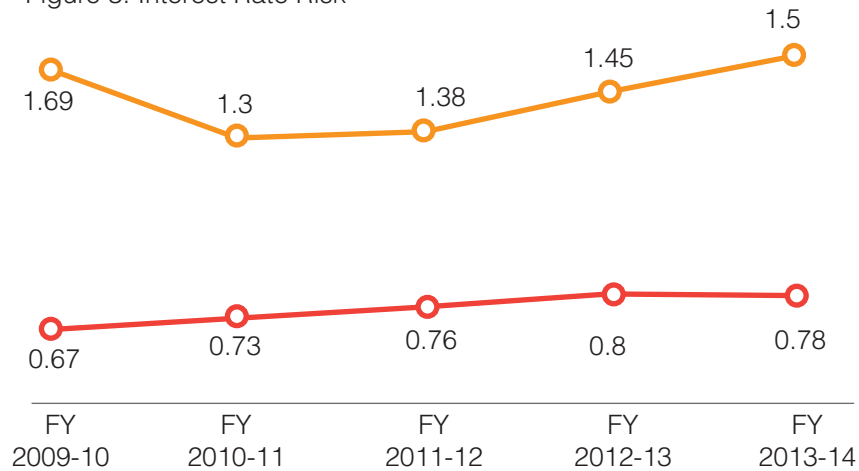
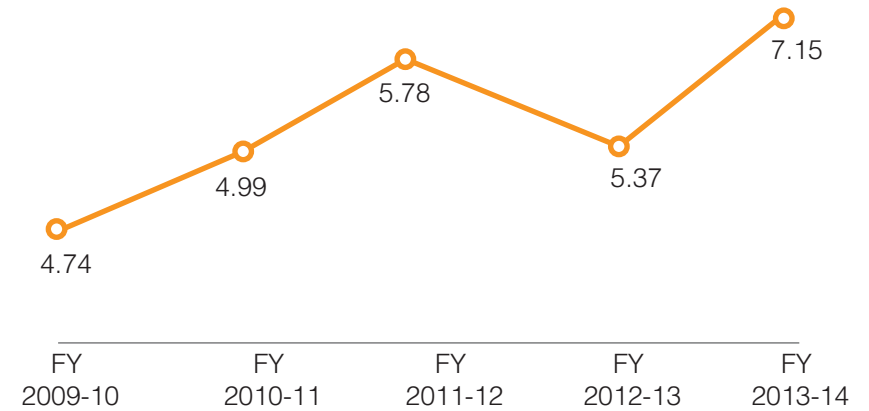


Figure 4. Interest as a % of Sales



■ Interest Coverage Ratio (Times) ■ Debt-Equity Ratio (Times)

Source: CMIE Prowess

The wire and cable sector has been maintaining a stable debt-equity ratio between 0.67 times and 0.78 times during the period from FY 2009–10 to FY 2013–14.

The sector is considered as less capital-intensive, hence required limited amount of capital. The interest coverage ratio of the sector has also been stable between 1.69 times to 1.50 times during the period from FY2009–10 to FY 2013–14.



Macro Economic Analysis

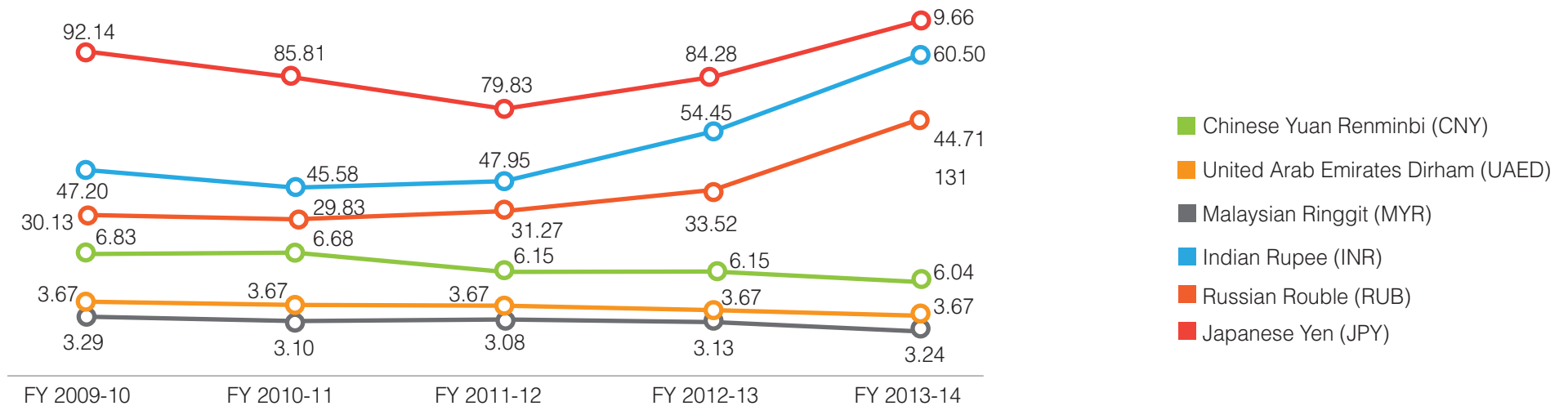
Foreign Exchange Fluctuations

The wire and cable sector, being a net importer, has a high foreign-exchange risk as it is positively correlated with the foreign-currency fluctuations.

India's wire and cable sector majorly deals in Chinese Yuan Renminbi (CNY), Japanese Yen (JPY), United Arab Emirates Dirham (UAED), Russian Rouble (RUB) and Malaysian Ringgit (MYR).

The depreciation in the domestic currency could incur the foreign-exchange loss to the sector, whereas the appreciation in the domestic currency may provide advantage to foreign-exchange profit to the sector.

Figure 5. Major Currencies Movement against USD



Source: Reserve Bank of India

Government Regulations

Duty Structure

In India, excise duty of 12.50% is imposed on wire and cable, as per the Union Budget for FY 2014–15. The duty has been increased in March 2015 to 12.50% from 10.00%, which was decreased by 2.00% in February 2014.

The basic customs duty and special CVD on wire and cable has been stable over the last five financial years; however, the additional CVD is increased from 10.00% to 12.00% in July 2014.

Under the import policy notes, the basic customs duty in FY 2014–15 on wire and cable remained stable at 7.50% with additional countervailing duties (CVD) of 12.00% and special CVD of 4.00%.



Government Regulations

Government Initiatives

- 1** In order to promote the sector, 100% Foreign Direct Investment (FDI) is allowed by the government under the automatic route to manufacture the wire and cable in the domestic territory (in the country), which is being imported from abroad.
- 2** The government of India has planned an expenditure of about INR 13657.90 billion for a capacity addition of 88.50 GW (gigawatts) in the power sector under the 12th Five Year Plan from FY 2011–12 to FY 2016–17, which will accelerate the growth of wire and cable sector.
- 3** The telecom department is examining a proposal from the National Manufacturing Competitiveness Council (NMCC) to float INR 61 billion government-sponsored fund to seed 'Made in India' technologies to boost local gear manufacturing. The proposed telecom manufacturing fund will infuse equity in start-ups promoted by technocrats and scientists of Indian origin on condition that product development and manufacturing happens in India.
- 4** To boost the infrastructure, government has allocated INR 79.30 billion in FY 2014–15 for Rural Housing Board. Government has also relaxed rules for FDI investors by reducing the minimum built-up area and capital required.



Demand-Supply Dynamics

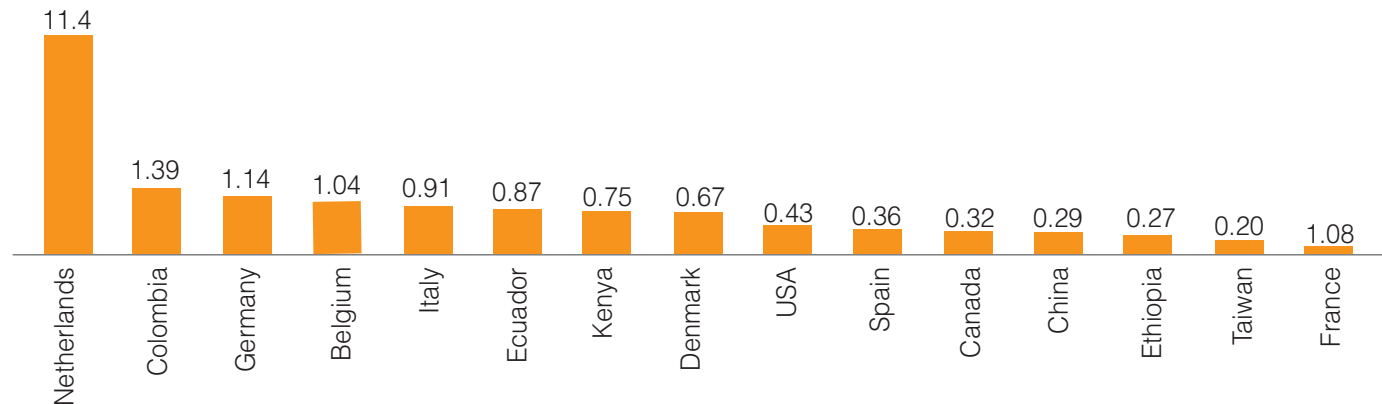
Demand Growth

- 1** The wire and cable sector in India has grown at a CAGR of approximately 6.93% during the period from FY 2009–10 to FY 2013–14.
- 2** The market size of India's wire and cable sector has reached around USD 3.39 billion in FY 2013–14.
- 3** The global market of wire and cable has increased with a CAGR of 9.50% from FY 2009–10 to FY 2013–14.
- 4** The global market size of the wire and cable sector has been estimated approximately at USD 206.81 billion in FY 2013–14 as compared to USD 11.49 trillion in FY 2012–13.
- 5** The sector has been showing a growth on YoY basis due to the gradual increase in the domestic demand of power, telecommunication, infrastructure and innovations in respect of alternate source of energy consequently leading to the demand for wire and cable.



Demand-Supply Dynamics

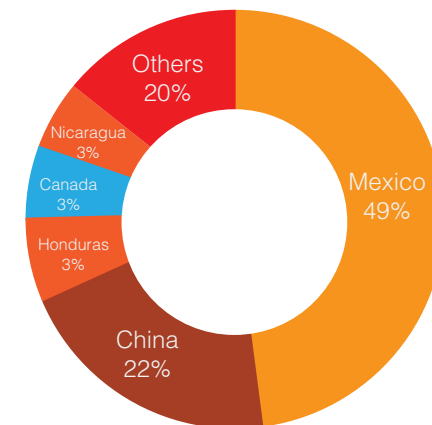
Figure 6. Country Wise Share in Global Insulated Wire Export in FY 2013–14 (In USD Billion)



The Netherlands was the top exporter of insulated wire, specifically, in the world in FY 2013–14; however, China was the top exporter in the overall wire and cable sector with approximately 15% share in total global export in FY 2013–14.

USA was the top importer of wire and cable sector in the world where Mexico and China fulfilled the demand with 49% and 22%, respectively, in FY 2013–14.

Figure 7. USA Import in FY 2013–14



Source: worldcityweb.com



Demand-Supply Dynamics

Demand Drivers

- 1** The demand for wire and cable industry has been coming from segments like power, telecommunication and infrastructure.
- 2** The power sector in India, which is the largest consumer of wire and cable, has shown a CAGR of 10.70% between FY 2009–10 and FY 2013–14 and it is also expected to show a higher growth rate in the coming financial years that will create larger demand for the sector.
- 3** Spectrum allocation, 4G roll out and broadband on pan-India basis in the telecommunication sector will provide an edge to the sector. There is also expected a demand of more than 10 million kilometre fibre cable to complete the National Optical Fibre Network (NOFN) in India.
- 4** The real estate industry in India has shown a CAGR of around 14.00% during the period from FY 2009–10 to FY 2013–14 and is projected to follow the same face in coming financial years.
- 5** The incumbent government has also announced the allocation of funds in the Rural Housing Fund (RHF) and the National Housing Bank (NHB) in the Union Budget 2014–15 that will also create a demand for wire and cable sector.

Source: Directorate of Foreign Trade



Demand-Supply Dynamics

Import Export Trend

- 1** The import of wire and cable has increased at a CAGR of around 13.26% during the period FY 2009–10 to FY 2013–14.
- 2** The import as a percentage of total market size of wire and cable in India has been approximately 40.49% in FY 2013–14.
- 3** The country is a net importer of wire and cable that increases the dependency of domestic consumption on foreign markets
- 4** In FY 2013–14 China, UAE, Russia, Japan, Malaysia and Germany contributed approximately 21%, 13%, 12%, 9%, 8% and 6%, respectively, to the total import of the sector.

Figure 8. Import (In USD Million)

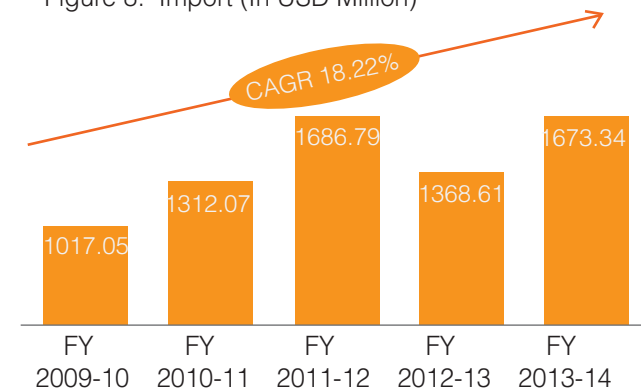
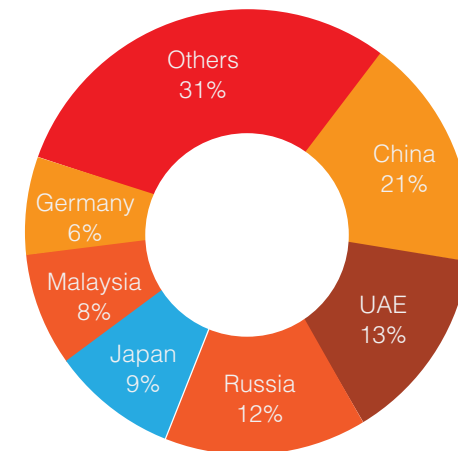


Figure 9. Country Wise Import to India's Wire and Cable Sector in FY 2013–14



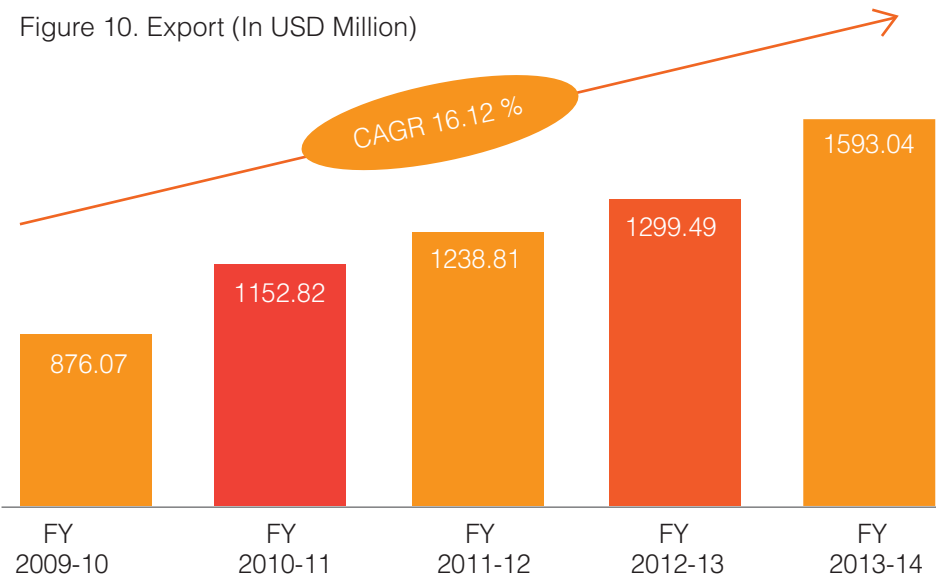
Source: www.commerce.nic.in



Demand-Supply Dynamics

Import Export Trend

- 1** The export of wire and cable has increased at a CAGR of around 16.12% during the period FY 2009–10 to FY 2013–14.
- 2** In FY 2013–14 India exported approximately USD 1.25 billion wire and cable products compared to USD 0.88 billion in FY 2009–10.
- 3** India exports wire and cable products majorly to UAE, USA and Saudi Arabia.

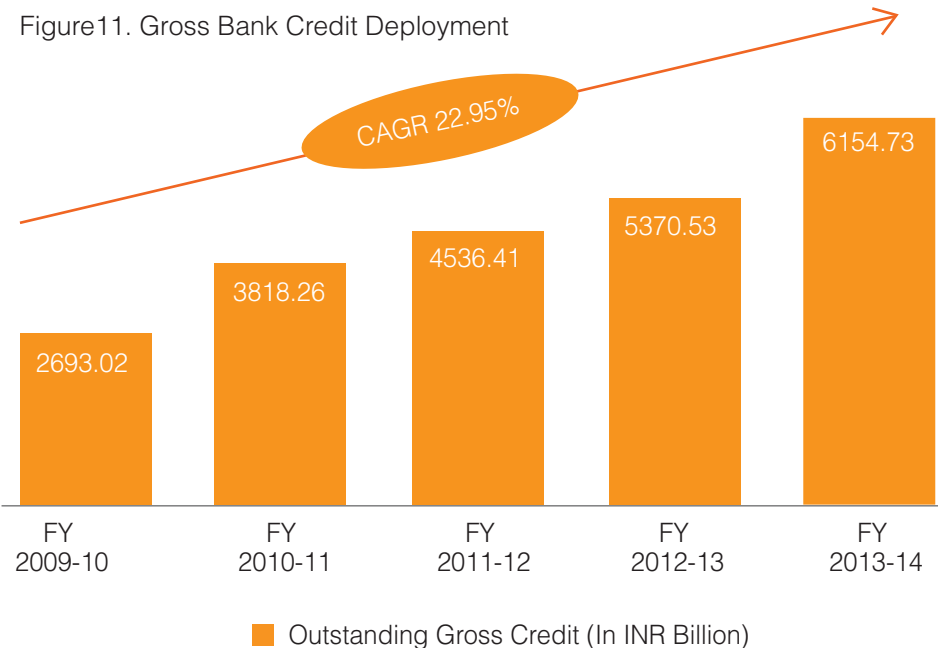


Source: www.commerce.nic.in

Demand-Supply Dynamics

Capacity Addition

- 1 As per the industry-wise deployment of gross bank credit data, banks deployed the funds in the electronic, power and telecommunications sectors at a CAGR of 14%, 27% and 11%, respectively, during the period from FY 2009–10 to FY 2013–14.
- 2 The growth rate in the deployment of bank credit is also expected to increase in the future as government is planning to increase the growth rate of manufacturing sector in India.



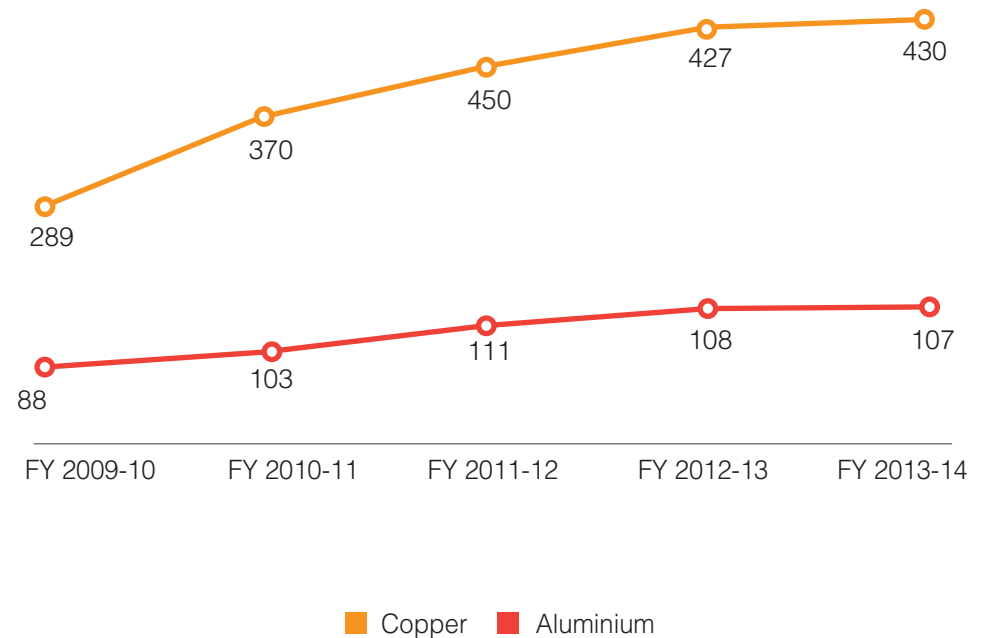
Source: Reserve Bank of India

Demand-Supply Dynamics

Price Trend

- 1** The price of wire and cable has shown an increasing trend during the period from FY 2009–10 to FY 2013–14 especially due to the increase in the prices of copper and aluminium.
- 2** The price of copper has increased at a CAGR of 10.47% during the period from FY 2009–10 to FY 2013–14, which has reached INR 430 per kilogram from INR 289 per kilogram during the same period. In FY 2010–11 the price of copper increased by 28.22% over FY 2009–10.
- 3** The price of aluminium has increased at a CAGR of 4.96% during the period from FY 2009–10 to FY 2013–14, which has reached INR 107 per kilogram from INR 88 per kilogram during the same period. In FY 2011–12 the price of aluminium reached maximum level of INR 111 per kilogram and thereafter decreased by 2.32% and 0.71% in FY 2012–13 and FY 2013–14, respectively.

Figure 12. Price Trend (INR per kilogram)

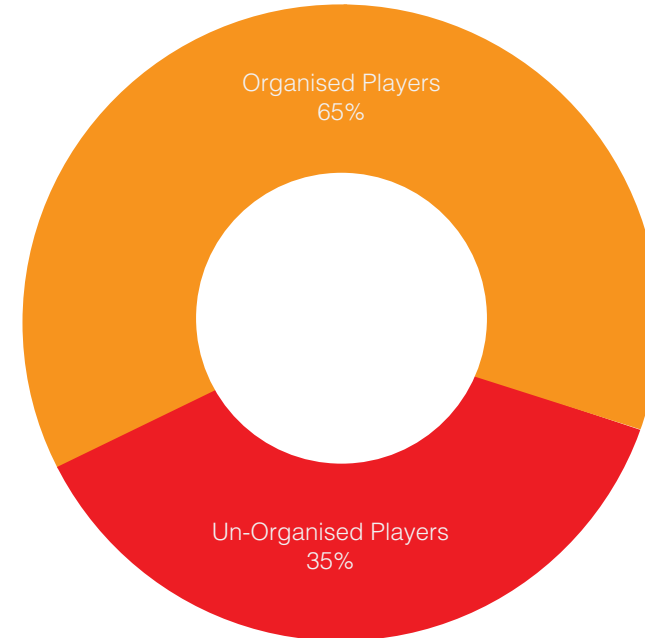


www.infomine.com

Competitive Scenario

- 1** The wire and cable industry is organised in nature due to the availability of limited number of market players.
- 2** There are approximately 65% organised players and 35% unorganised players in the wire and cable sector.
- 3** Due to the tough competition from the countries like China, Brazil, South Africa and Saudi Arabia, Indian wire and cable companies lack a competitive edge in the international market.
- 4** The quality and variety of wire and cable with its applications in different industries make it demanding in several countries.

Figure 13. Industry Structure

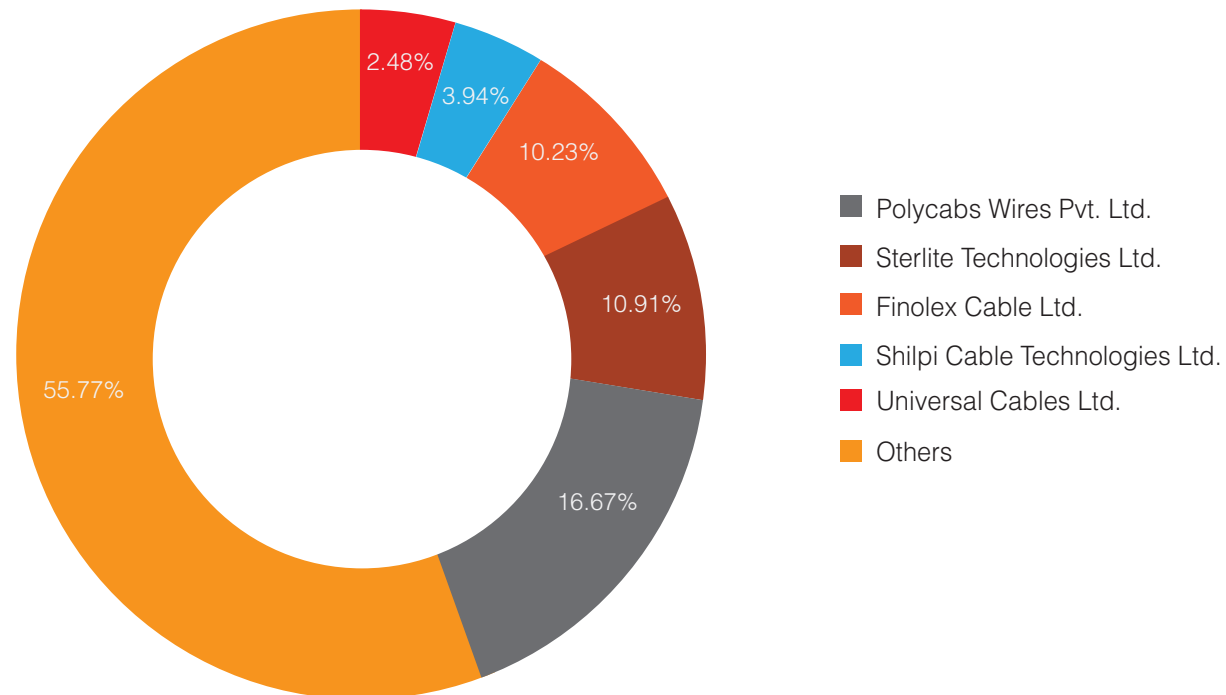


www.eprmagine.com

Competitive Scenario

Polycab Wires Pvt Ltd, Sterlite Technologies Ltd, Finolex Cables Ltd, Shilpi Cable Technologies Limited, and KEI Industries Limited are the market leaders in the manufacturing of wire and cable.

Figure 14. Market Share



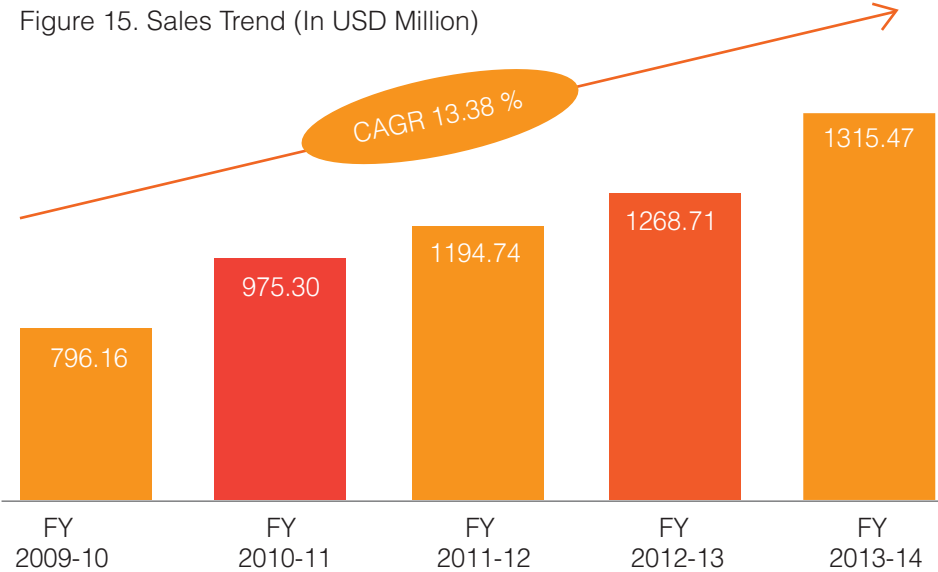
Source: CMIE Prowess

Resource Risk

- 1** The raw materials that are being used in the manufacturing of wire and cable are copper and aluminium as conductive material and plastic and rubber for insulation. Despite the fact that India has abundant reserves of metals, the raw material availability of copper and aluminium is the biggest challenge faced by the sector players.
- 2** The rising price of raw materials is a big threat to stable price and production costs in wire and cable. The rising price of aluminium and copper is becoming a major issue as it has squeezed the profit margin of enterprises. Internationally, most countries usually opt variable pricing structures where certain fluctuations in the prices of raw materials automatically get adjusted in the prices of finished products. But in India, enterprises execute orders on fixed prices, so the varying prices of raw materials hit the manufacturers directly.
- 3** The import dependency of the wire and cable sector in India is high as the mining of minerals to get the copper and aluminium for the manufacturing of wire and cable requires legal permissions and, because of environment protection, the permission is granted up to a certain limit. Therefore, the sector has high risk of foreign-market fluctuations on its production as it is directly related to the import of raw material.



Financial Risk



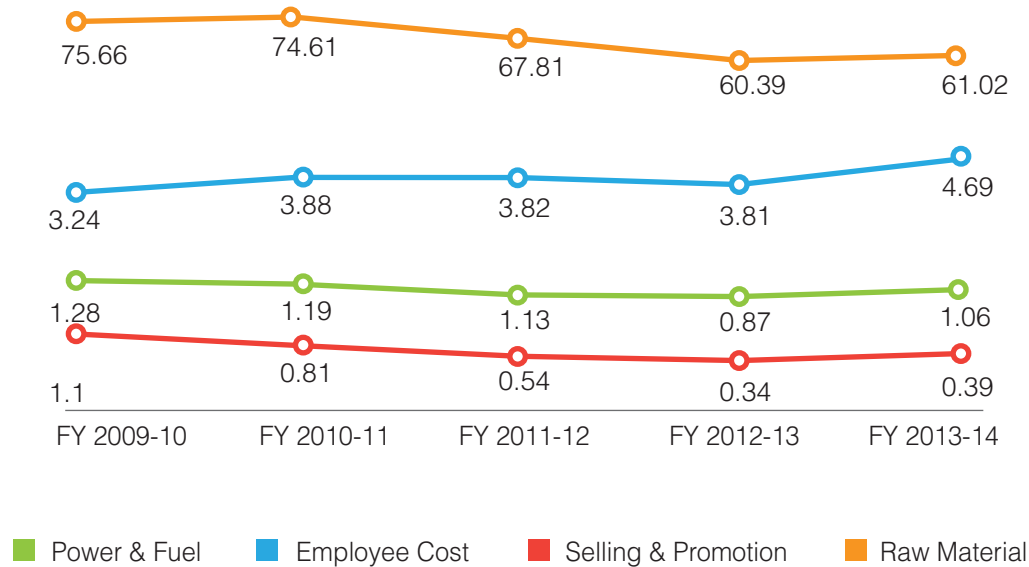
The net sale of wire and cable sector has grown with a CAGR of approximately 13.28% during the period from FY 2009–10 to FY 2013–14.

The steep fall in the growth rate of turnover in FY 2012–13 and FY 2013–14 can be attributed to the sluggish demand from the domestic infrastructure, telecommunication and power sectors and a decrease in the GDP growth rate from 8.90% to 6.70%.

Source: CMIE Prowess

Financial Risk

Figure 16. Cost Structure (In %)



The raw material cost as a percentage of sales has decreased in FY 2013–14 to 61.02% compared to FY 2009–10 due to the decrease in the prices of raw materials. On the other side, the employee cost has increased to 4.69% in FY 2013–14 from 3.24% in FY 2009–10.

The power and fuel cost and selling and promotion have decreased marginally during the period from FY 2009–10 to FY 2013–14.

Source: CMIE Prowess

Financial Risk

Key Indicators	Unit	FY 2013-14
EBITDA Margin	%	9.62
Net Profit Margin	%	1.19
Return on Capital Employed	%	12.32
Return on Net worth	%	1.23
Current Ratio	Times	1.22
Quick Ratio	Times	0.62
Debtor Days	Days	106
Payable Days	Days	87
Inventory Days	Days	106
Interest Coverage Ratio	Times	1.50
Total outside liabilities/ Total Net worth	Times	1.78
Sales to Capital Employed	Times	0.52
Debt-Equity Ratio	Times	0.78
Asset Turnover	Times	1.21

Sample Set : 8 Companies

Source: CMIE Prowess



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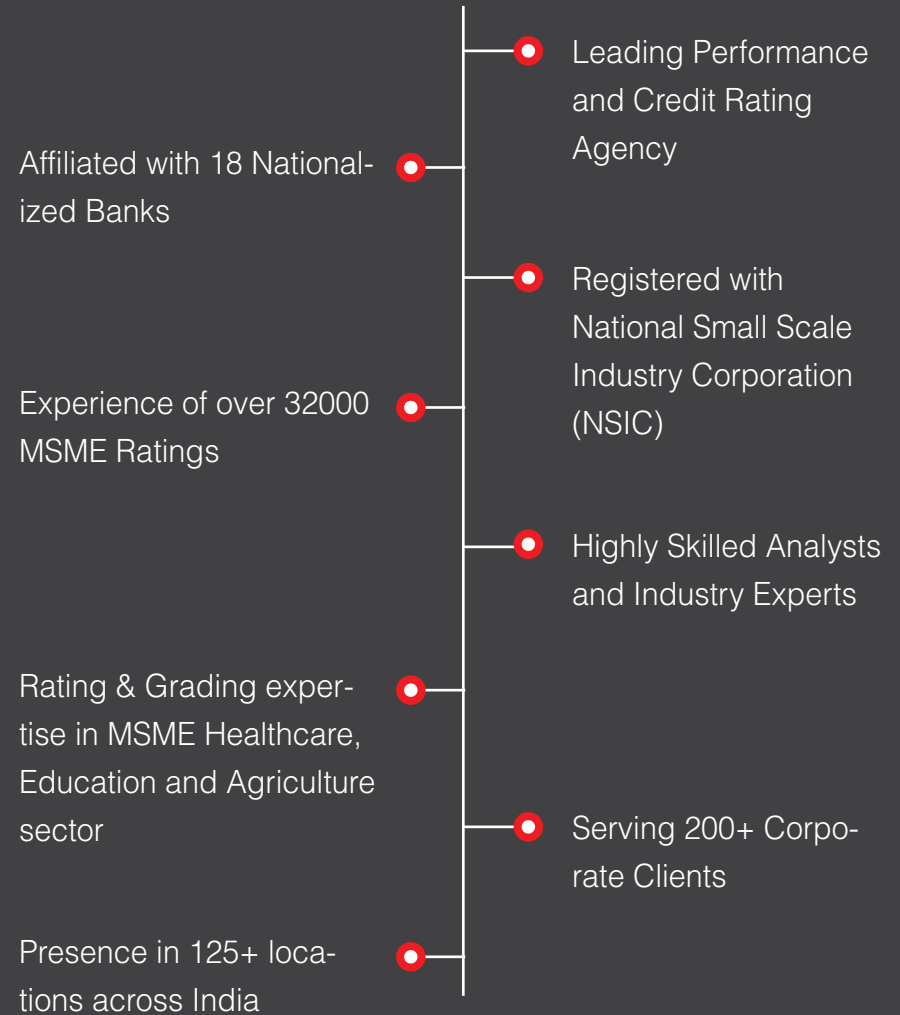
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