

June 25, 2024

Visit Update

Key Financials - Consolidated

| Y/e Mar | 2021 | 2022 | 2023 | 2024 |
|----------------|--------|-------|-------|--------|
| Sales (Rs. m) | 5,183 | 5,789 | 7,897 | 10,706 |
| EBITDA (Rs. m) | 165 | 204 | 479 | 892 |
| Margin (%) | 3.2 | 3.5 | 6.1 | 8.3 |
| PAT (Rs. m) | 31 | 82 | 478 | 856 |
| EPS (Rs.) | 0.2 | 0.4 | 2.4 | 3.8 |
| Gr. (%) | (88.9) | 147.1 | 471.4 | 57.0 |
| DPS (Rs.) | - | - | - | - |
| Yield (%) | - | - | - | - |
| RoE (%) | 1.7 | 4.2 | 19.2 | 18.6 |
| RoCE (%) | 2.7 | 4.0 | 14.2 | NA |
| EV/Sales (x) | 4.3 | 3.9 | 2.8 | 2.1 |
| EV/EBITDA (x) | 135.3 | 109.6 | 46.7 | 25.1 |
| PE (x) | 429.3 | 173.8 | 30.4 | 19.4 |
| P/BV (x) | 7.34 | 7.0 | 4.8 | 3.3 |

Key Data

PCML.BO | PRMC IN

| | |
|---------------------|------------------------|
| 52-W High / Low | Rs. 117 / Rs. 34 |
| Sensex / Nifty | 77,054 / 23,721 |
| Market Cap | Rs. 22.0bn / \$ 263.9m |
| Shares Outstanding | 303.4m |
| 3M Avg. Daily Value | Rs. 76.0m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 49.31 |
| Foreign | 6.98 |
| Domestic Institution | - |
| Public & Others | 43.71 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M | |
|----------|--------|--------|--------|-------|
| Absolute | (8.9) | (8.9) | (20.5) | 100.6 |
| Relative | (11.5) | (11.5) | (30.7) | 74.5 |

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Focus on growth with repayment of ARC debt

We recently met the management of Paramount Communications (PRMC) and visited its plants. PRMC incorporated in 1955, is a prominent player in India's wire and cable industry with a diverse portfolio of over 25 products and 2,500 SKUs catering to the power, telecom, railways, and infrastructure sectors. PRMC's pan-India distribution network has been pivotal to its growth, reaching over 600 institutional clients, 150 channel partners, and 7,000 electricians. With strong pre-qualification credentials, PRMC has a wide presence in both domestic and export markets, with a solid foothold in the US. The company has made significant strides in reducing its asset reconstruction company (ARC) debts and aims to be debt-free by FY25.

PRMC delivered a revenue/EBITDA/PAT CAGR of 15.3%/18.7%/34.3% over FY20-24. Notably, the export segment displayed robust performance with a revenue CAGR of 80.4%. PRMC reported revenue of Rs10.7bn with EBITDA margin of 8.3%, PAT of Rs856mn, and RoCE/RoE of 13.7%/13.7% in FY24. The management expects revenue to reach Rs13.5bn by FY25 and Rs17bn by FY26 and clock a CAGR of 20%+ over the next 5 years, driven by its B2C market in the US contributing to ~40% of the total revenue. The company maintains a healthy order book of Rs4,951.6mn. We don't have a rating on the stock.

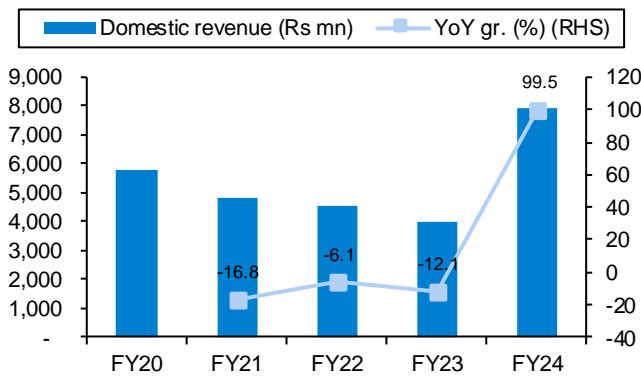
Key takeaways:

- Robust revenue growth expected:** PRMC reported 19.2% revenue CAGR over FY17-24, despite limited working capital support from banks. The company expects sustained growth and is targeting revenue of Rs13.5bn by FY25E and Rs17.0bn by FY26E, 26.2% CAGR over FY24-26, with 10% EBITDA margin. Export revenue is expected to reach Rs4.5bn by FY26, predominantly from the US market. PRMC primarily focuses on the US market for its export business due to its long-standing relationships with distributors, large network of distributors, and the higher duty on Chinese W&C (25%) compared to Indian products (~5%).
- Repayment of ARC obligation:** The company had an outstanding debt of Rs1,900mn owed to an ARC in FY17, payable over 8 years. The final repayment installment is scheduled for Nov-2024, and the company is considering prepaying Rs983mn of this tranche. There has been a consistent reduction in gross debt levels, with the debt-to-equity ratio improving from 1.05 in FY21 to 0.16 in FY24.
- Scale-up of business post repayment of ARC obligation:** Post repayment of ARC debt, the company will have access to traditional banking channels. This will facilitate working capital support from banks, lower margin money requirements for issuance of bank guarantees for various government contracts, and supportive trade finance for distributors and dealers of PRMC's products to scale up the domestic B2C segment. These efforts will enable the company to scale up a sooner and capitalize on fast emerging opportunities in the domestic and international wire and cable space.

Domestic cable business driven by power & railways

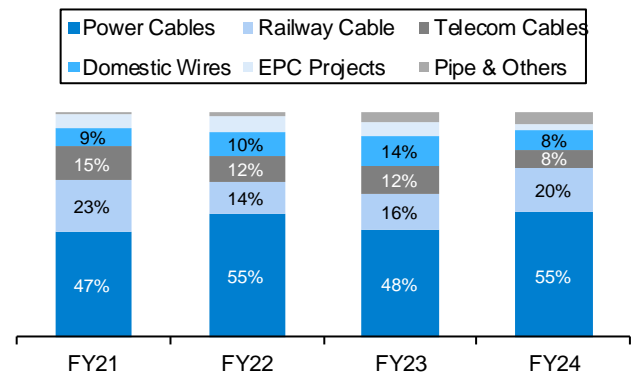
The domestic business primary focuses on power and railway cables. Domestic revenue reported 18% CAGR over FY21-24 with gross margin of 26% in FY24. The company is expected to continue with healthy growth supported by power and railways. The company is focused on diversifying its product range, delivering top-notch quality solutions in the wire and cable space, and developing new products along with expanding its geographical footprint and reaching new markets in the future.

Exhibit 1: Volatile domestic revenue



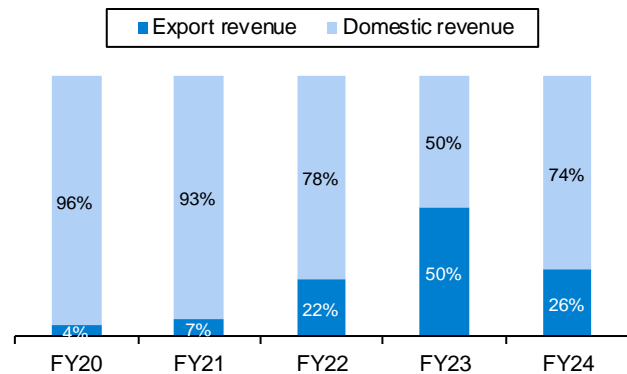
Source: Company, PL

Exhibit 2: Power cables constitute 55% of domestic revenue



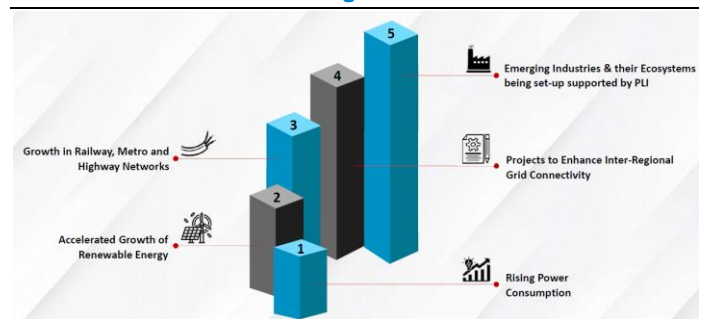
Source: Company, PL

Exhibit 3: Domestic revenue continues to dominate



Source: Company, PL

Exhibit 4: Domestic revenue growth drivers



Source: Company, PL

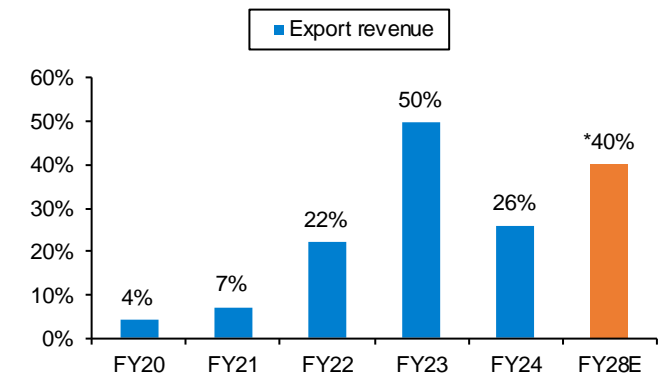
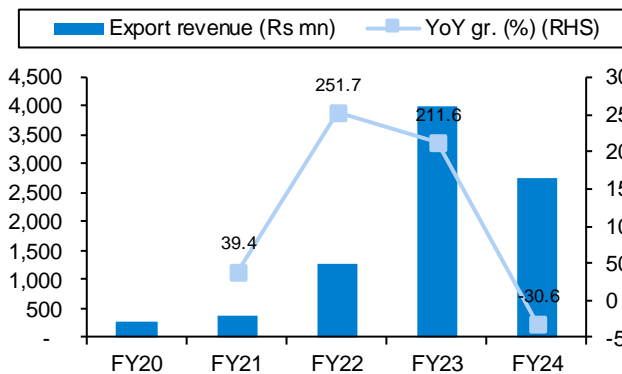
Export business – Optimistic, to grow at faster pace

- PRMC primarily focuses on the US market for its export business due to its long-standing relationships with distributors, large network of distributors (8-10, including Houston Wire & Cable Co. and DWC), and the higher duty on Chinese cables and wires (~25%) compared to Indian products (~5%).
- PRMC is certified by international agencies, including UL US, LPCB UK, etc.

- PRMC has established a strong presence in the US market following a rigorous 5-year approval process. Its US exports reached Rs3.8bn in FY23 and Rs2.1bn in FY24, demonstrating the strength of its name in this critical B2C export market.
- The company's export business operates on a delivered duty paid basis, covering freight and commodity price fluctuations. To mitigate risks from these fluctuations, the company handles small orders with a 3-4month order book.
- PRMC primarily exports power cables, accounting for 50% of India's total exports to the US in this category. Apar dominates with 80% share in solar cable exports and Polycab focuses on copper housing wires; PRMC has recently entered the copper housing wire export market.
- The company's export revenue is expected to reach Rs4.5bn by FY26, clocking a CAGR of 27.6% over FY24-26.
- PRMC has exported cables to over 15 countries spread across Europe, Africa, Australia, Asia, and the US.

Exhibit 5: Export revenue reported 97% CAGR over FY21-24

Exhibit 6: Export revenue to pick up

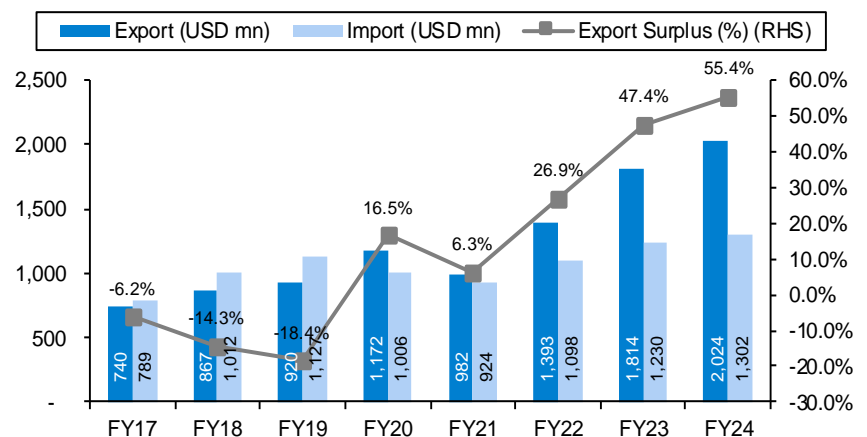


Source: Company, PL

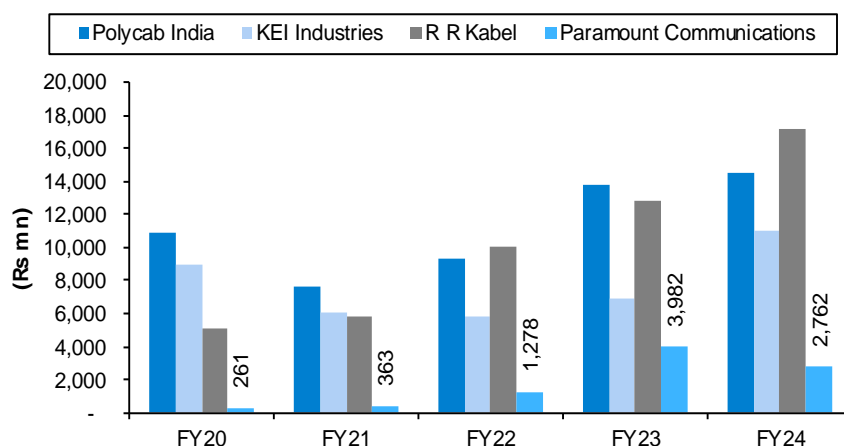
Source: Company, PL

*Management expects export to reach 40% revenue.

Exhibit 7: Rise In exports of cable & wire higher than imports



Source: Company, PL

Exhibit 8: Export revenue - Peer comparison


Source: Company, PL

Comfortable capital structure

The company has a healthy capital structure, with net worth exceeding Rs5.7bn in FY24 following an equity infusion of Rs3.2bn during Q4FY23-FY24.

- The company has sufficient liquidity post equity infusion to comfortably meet its debt obligations in FY25 (Rs571mn debt repaid in FY24 through internal accruals supported by proceeds from equity infusion). The debt repayments are to Invent ARC that had acquired the debt from four banks in 2016, which PRMC had defaulted, and total settlement amount between PRMC and Invent ARC was Rs1.9bn.
- Since 2010, when PRMC entered into a corporate debt restructuring due to liquidity issues, the company stopped receiving additional bank funding. The promoters therefore initially invested Rs260mn up to FY13. Post the ARC settlement, the promoters inducted Rs570mn (USD7mn) as equity, which was raised by liquidating personal savings during FY18 to FY21. In Q1FY24, promoters further infused Rs450mn (USD5.8mn) raised by disposing of the corporate office of PRMC owned by the group company, towards equity shares. **Total equity infused by promoters since CY10 is Rs1.28bn.**

Exhibit 9: Equity fund raising to repay ARC debt

| | Equity shares (mn) | Price (Rs) | Amount (Rs mn) | Type | Issued |
|--------|--------------------|------------|----------------|----------------------------|---------------|
| Oct-22 | 29.0 | 15.5 | 450 | Convertible Share Warrants | Promoters |
| Feb-23 | 62.3 | 21.6 | 1,344 | Convertible Share Warrants | Non-Promoters |
| Jan-24 | 21.6 | 66.5 | 1,438 | Preferential Equity Share | Non-Promoters |

Source: Company, PL

Note: The company received total Rs1.28bn till 31-Mar-2024. The balance allotment of Rs60mn, out of Rs1.34bn warrants issued, shall be received in due course.

Paramount struggled amid sector downturn

In 2007, PRMC acquired AEI Cables Ltd., the UK's third-largest cables manufacturer and one of the world's oldest, with a lineage dating back to circa 1837. This acquisition made PRMC the largest listed cables company by revenue in India. However, the 2008 global economic meltdown led to losses for both PRMC and AEI Cables. Resultant financial stress led to PRMC exiting the UK entity in 2014 at a substantial loss after settling its debts. Eventually, PRMC's bank debts in India were acquired by an ARC. In 2016, Invent ARC acquired debt from of four banks, which PRMC had defaulted; total settlement between PRMC and Invent ARC was around Rs1899mn.

- PRMC's current outstanding debt is only from an ARC, which is non-interest bearing and being repaid on schedule. The company has consistently met all its obligations, including statutory and creditor payments, without fail. Even during periods of stress, PRMC has never compromised on product quality or delivery schedules.

Exhibit 10: ARC – Debt repayment schedule

| (Rs mn) | Borrowings | Cash & bank balance | ARC debt | ARC debt repayments |
|---------|------------|---------------------|----------|---------------------|
| FY18 | 1,976 | 194 | 1,807 | |
| FY19 | 2,083 | 120 | 1,807 | - |
| FY20 | 1,956 | 157 | 1,746 | 61 |
| FY21 | 1,888 | 206 | 1,715 | 31 |
| FY22 | 1,747 | 141 | 1,628 | 87 |
| FY23 | 1,579 | 302 | 1,458 | 170 |
| FY24 | 1,008 | 226 | 983 | 475 |
| FY25E | 25 | 286 | - | 983 |

Source: Company, PL

Company Overview

Established in 1955, Paramount Communications Limited is a prominent player in India's wire and cable industry. With two state-of-the-art manufacturing facilities in Rajasthan and Haryana, the company offers over 25 products and 2,500 SKUs meeting the needs of power, telecom, railways, and infrastructure sectors. With extensive pre-qualification credentials, the company has strong nationwide and international presence, particularly in the US.

- PRMC holds approvals from prominent customers and government organizations such as NTPC, Power Grid, Indian Railways, Delhi & Mumbai Metro, L&T, Siemens, Tata Power, ABB, BSNL, Reliance, Adani, Kalpataru, Hitachi, and JSW Steel.
- The company has a robust in-house R&D team focused on design excellence and implementation.
- PRMC serves over 500 institutional clients and has established a strong retail network across North India.
- Post-ARC settlement, PRMC has reported healthy growth, with revenues doubling from Rs3.16bn in FY17 to Rs6.1bn (USD75mn) in FY20, achieving an EBITDA of 7.4%. In FY23, revenues reached ~Rs8.0bn (USD99mn) with an EBITDA of 6.0% and a PAT of Rs478mn (USD6.0mn). In FY24, revenues increased to Rs10.7bn (USD129mn) with an EBITDA of 8.3% and a PAT of Rs856mn (USD10.0mn).
- With the industry growing at over 20%, PRMC possesses strong growth potential. As a well-established brand with a long history, PRMC is poised for significant expansion across all segments, including power, railways, telecom, exports, and house-wiring.
- The company is currently operating at 85% utilization, with a capex of Rs700-750mn for the next 2 years on debottlenecking, which will drive volume growth.
- It has planned a greenfield capex of Rs2.5-3.0bn, which is expected to generate revenue of Rs10-15bn.
- PRMC's current outstanding debt is only from an ARC, which is non-interest bearing and being repaid on schedule.
- The company's working capital days are high at 137 days compared to KEI (83 days), RRRKabel (61 days), and Polycab (36 days), due to increased inventory and debtors as exports business was impacted in FY24, and increase in domestic government business from 5% in FY23 to 19%. The management aims to reduce this to 110 days in the near future.

Exhibit 11: Quality certifications



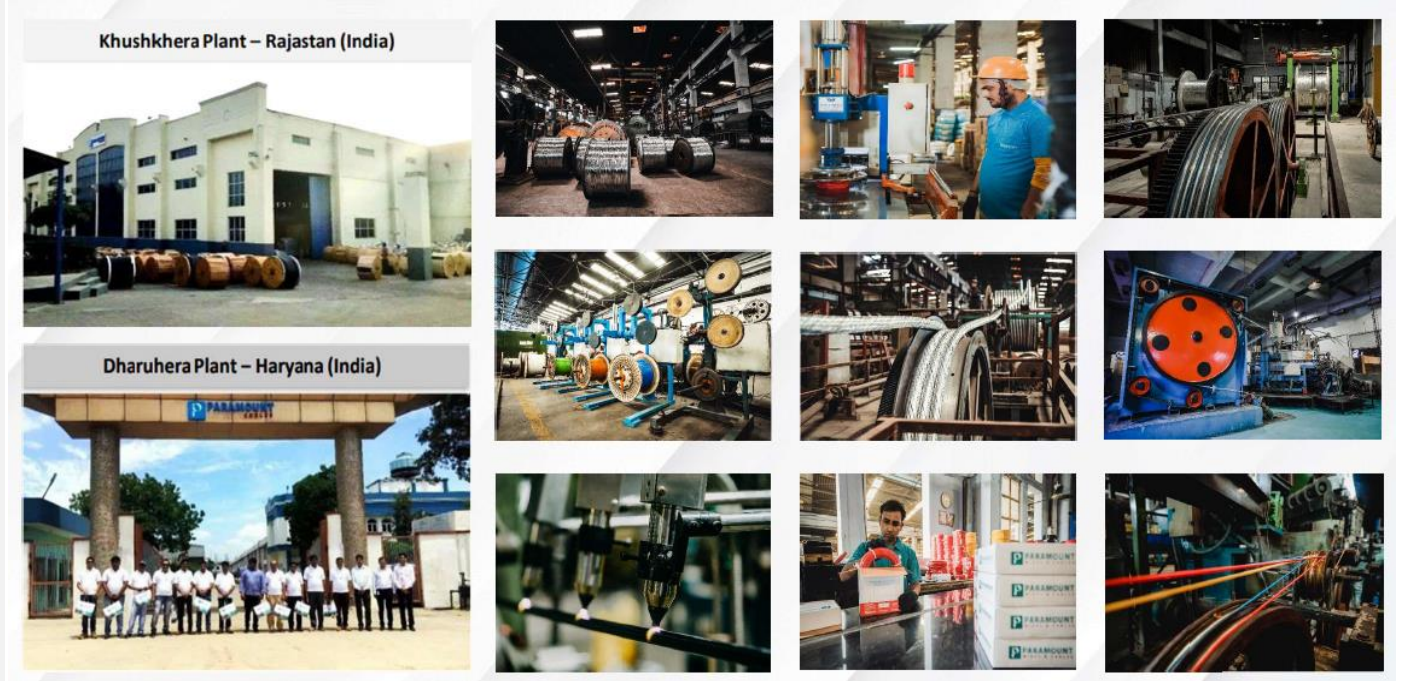
Source: Company, PL

Exhibit 12: Wide product basket



Source: Company, PL

Exhibit 13: Manufacturing facility - Reached peak utilization



Source: Company, PL

Exhibit 14: Peer comparison

| Company Names | M Cap (Rs bn) | CMP (Rs) | Rating | PER (x) | | | | RoCE (%) | | | | Sales CAGR (%) FY24-FY26E | EPS CAGR (%) FY24-FY25E |
|----------------|---------------|----------|------------|---------|------|-------|-------|----------|------|-------|-------|---------------------------|-------------------------|
| | | | | FY23 | FY24 | FY25E | FY26E | FY23 | FY24 | FY25E | FY26E | | |
| KEI Industries | 410.9 | 4,556 | HOLD | 86.2 | 70.7 | 56.6 | 48.6 | 26.0 | 26.0 | 26.0 | 26.0 | 17.1 | 20.7 |
| RR Kabel | 197.8 | 1,753 | BUY | 82.2 | 61.9 | 44.1 | 32.3 | 16.8 | 16.8 | 16.8 | 16.8 | 22.0 | 43.4 |
| Finolex Cable* | 237.0 | 1,550 | NA | 47.0 | 37.5 | 31.6 | 27.1 | 10.4 | 11.9 | 13.2 | 13.0 | 14.9 | 17.6 |
| Polycab India | 1065.6 | 7,092 | BUY | 83.6 | 57.1 | 51.9 | 43.9 | 28.6 | 28.6 | 28.6 | 28.6 | 17.6 | 14.0 |
| Havells India | 1181.3 | 1,885 | Accumulate | 110.9 | 92.4 | 74.2 | 57.8 | 22.6 | 25.0 | 27.0 | 29.7 | 15.6 | 26.4 |

Source: Company, PL

Cable manufacturing process

Step 1: Wire drawing: Material is drawn to produce different gauge wires. After wire drawing, the wire becomes thin and malleable.

Step 2: Annealing: Annealing involves heating metals and then cooling slowly to remove internal stresses and toughen the metals.

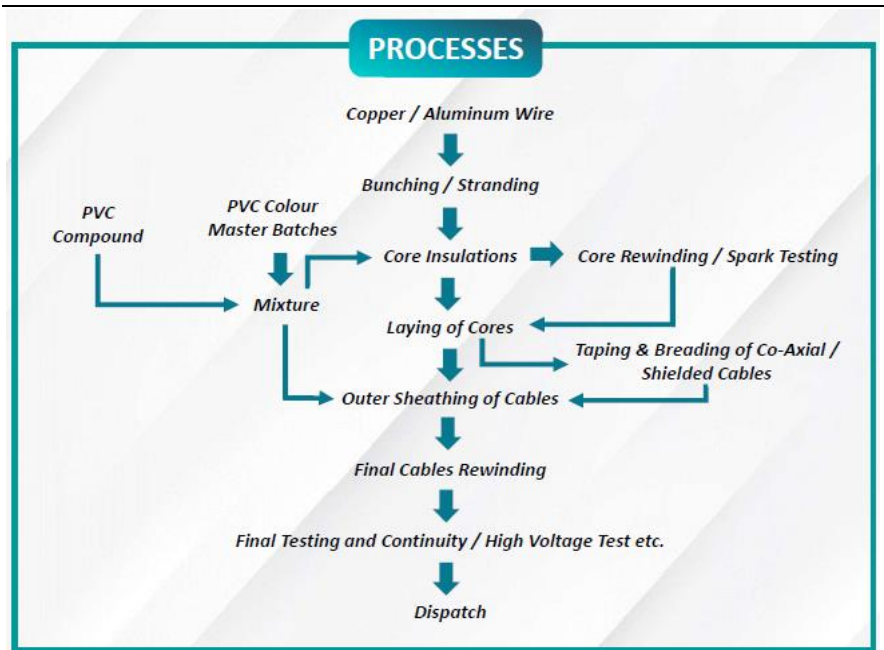
Step 3: Insulation: Cables contain many different wires that are wrapped together in an insulator.

Step 4: Twisting and stranding: Multiple wires are formed into strands to enhance flexibility and electrical performance.

Step 5: Extrusion: In this step, materials are subjected to plastic deformation by applying a force and letting material flow through a die or orifice. The wire passes through an extruder, where it is coated with plastic or other insulating material.

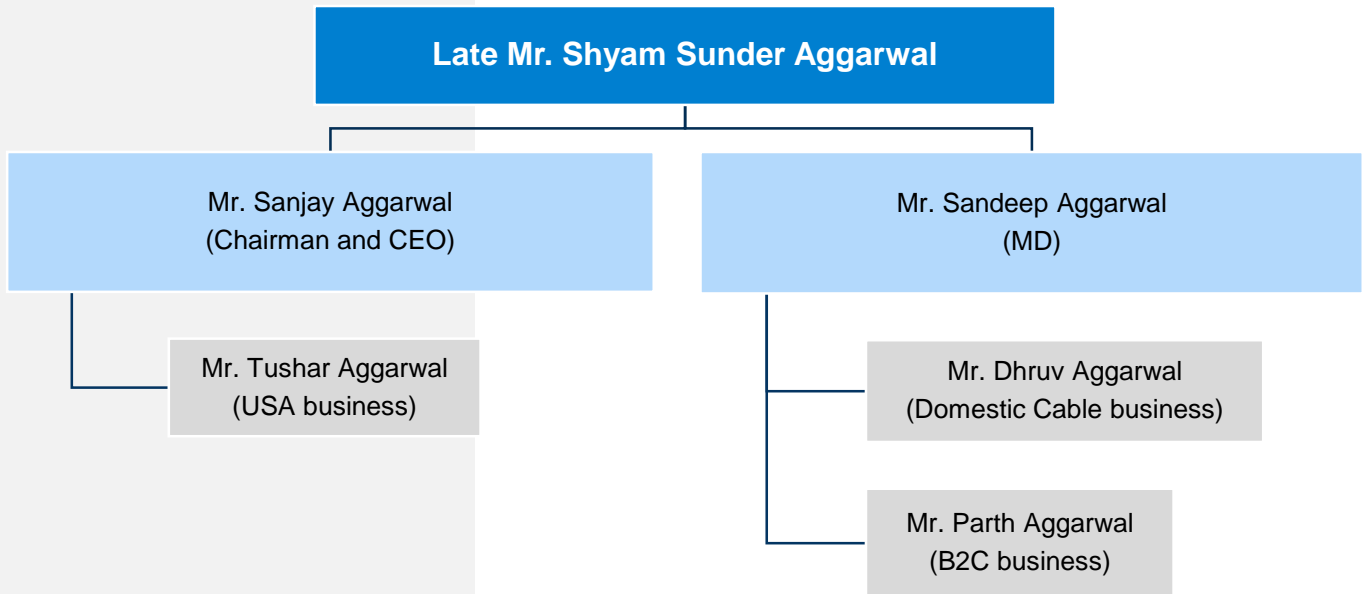
Step 6: Cabling: Different wires are assembled in a jacket to form a cable. The process is performed in a cabin station.

Exhibit 15: C&W manufacturing process



Source: Company, PL

Promoter Family Tree





Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|------|--------|----------|-------------------|
|-----|------|--------|----------|-------------------|

Analyst Coverage Universe

| Sr. No. | CompanyName | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------------------------|------------|---------|------------------|
| 1 | Astral Ltd. | Accumulate | 2,201 | 2,079 |
| 2 | Bajaj Electricals | Hold | 941 | 936 |
| 3 | Century Plyboard (I) | Hold | 674 | 656 |
| 4 | Cera Sanitaryware | Accumulate | 8,178 | 7,119 |
| 5 | Crompton Greaves Consumer Electricals | BUY | 406 | 339 |
| 6 | Finolex Industries | Hold | 270 | 271 |
| 7 | Greenpanel Industries | Accumulate | 355 | 310 |
| 8 | Havells India | Accumulate | 1,774 | 1,664 |
| 9 | Kajaria Ceramics | Accumulate | 1,318 | 1,184 |
| 10 | KEI Industries | Hold | 4,032 | 3,893 |
| 11 | Polycab India | BUY | 7,086 | 6,156 |
| 12 | R R Kabel | BUY | 1,926 | 1,724 |
| 13 | Supreme Industries | BUY | 5,188 | 4,338 |
| 14 | Voltas | Hold | 1,241 | 1,276 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : >15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |



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