Vindhya Telelinks Limited (Revised)
December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	649.00 (Reduced from 675.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1,540.75 (Reduced from 1,776.51)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**2,189.75** **(Rs. Two Thousand One Hundred Eighty-Nine Crore and Seventy-Five Lakhs Only)**		
Non-Convertible Debentures	50.00 (Reduced from 66.50)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**50.00** **(Rs. Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and debt instrument of Vindhya Telelinks Limited (VTL) continue to derive strength from well established, resourceful & experienced promoter group with demonstrated financial support to the company and its diversified product portfolio catering to telecom, power distribution and solar energy sectors with strong market position in supply of optical fibre cables (OFCs) to telecom sector and a moderate order book position providing medium-term revenue visibility. The ratings also factor in VTL's moderate financial risk profile characterized by moderate gearing as well as debt coverage metrics and adequate liquidity position. The ratings also take cognizance of sequential moderation in total income, cash accruals and resultant decline in return indicators during FY20 (refers to the period from April 01 to March 31) and FY21 amidst COVID impact on Engineering Procurement Construction (EPC) business and muted demand from telecom sector. The rating strengths are, however, tempered by the company's large working capital requirements both fund-based and non-fund based attributable to inherently working capital-intensive operations due to elongated collection cycle and substantial inventory holdings in EPC segment, inherent risk associated with large and tender based orders, susceptibility to volatile raw material prices and prevalent competition in EPC as well as cables businesses. CARE believes that the company's working capital cycle has got stretched over the last two years amidst COVID induced disruption especially in EPC business and it is expected that the operating cycle shall get rationalized during current fiscal on expectation of higher income and better collections. The same shall remain critical for the company's credit profile and will be remain key monitorable.

Rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Significant and sustainable improvement in operating performance and PBILDT margin so that ROCE of more than 15% is reported on a sustained basis
- Significant Improvement in operating cycle to less than 180 days

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Adjusted overall gearing (considering corporate guarantee extended to group companies) beyond 1.5x on a sustained basis
- Continued stretched operating cycle or deterioration in operating cycle either by further increase in inventory holding period or collection period

Detailed description of the key rating drivers

Key Rating Strengths

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Well established, resourceful & experienced promoters with demonstrated financial support to the company: VTL is an M. P. Birla group company, one of the established business houses in India having various business interests like cement, jute, carbide, power cables, optical fibre cables, power capacitors etc. These businesses are operated through various companies such as Birla Corporation Limited (BCL, rated CARE AA; Stable/ CARE A1+), VTL and Universal Cables Ltd (UCL, rated CARE A; Stable/ CARE A1). The day-to-day operations of the company are managed by a team of experienced and qualified personnel headed by Mr. Y.S. Lodha (Managing Director) who has over three decades of experience in the cables industry. Moreover, the group has supported the company through infusion of funds in the form of ICDs which stood at Rs.250 crore as on March 31, 2021. Going forward, CARE believes that the company shall continue to enjoy group's financial flexibility and ICDs are expected to remain extended to the company thereby supporting its funding requirements.

Wide product portfolio catering to diverse industries: The company primarily has two operating segments viz. Manufacturing of Cables and EPC division. VTL's cable division has a wide range of products including OFC, copper cables, power cables, specialty cables, solar PV cables and also telecom fibre accessories. The company has diversified in railway signalling and quad cables, which will be used in electrification of the track routes by the railways. It also has a presence in EPC and turnkey solutions segment for infrastructure projects. A major part of the EPC order book comprises of orders related to telecom segment and energy utilities segment catering to projects which are primarily funded by the Central Government of India. In the telecom segment, the company has been actively involved in Government projects such as BharatNet and National Broadband Mission. The company has also executed a large optical fibre cable network project under IP-1 model and started providing the services to leading telecom operators. Apart from energy and telecom, the company also undertakes EPC activities for Sewerage Pipeline projects, Lift Irrigation projects and all other allied project segments.

Moderate order book position providing medium term revenue visibility: VTL's outstanding order book position as on September 30, 2021 stood at Rs.1198.40 crore (Rs.1421.33 crore as on September 30, 2020). The primary reason for lower order book in the current year is due to the lower economic activity level during the first quarter of the year. Over half of the order book comprises of orders from the Telecom segment. Moreover, majority of the orders from the telecom sector are projects which are primarily being funded by Indian Telephone Industries Limited (government-owned telecommunications equipment manufacturer), which mitigates the counterparty risk to an extent. Additionally, as on September 30, 2021, the company has submitted bids for projects worth Rs.1,703 crore while orders amounting to Rs.429.30 crore are already in pipeline.

Decline in income in albeit slight improvement in profitability margin: VTL reported around 20% decrease in total income in FY21 vis-à-vis FY20 on account of significant decline in income from EPC segment. The income of the company declined for two years in a row and was reported at Rs.1524 crore. However, PBILDT margin of the company improved marginally to 15.26% in FY21 (PY: 14.64%) due to lower construction expenses. The PAT of the company was reported at Rs.103.56 crore in FY21 as against Rs.126.90 crore in FY20. The company has reported a total income of Rs.675 crore with a PBILDT margin of over 15% in H1FY22 (refers to the period from April 01 to September 30).

Moderate financial risk profile: The capital structure of the company registered improvement in FY21 owing to the reduction in overall debt on account of reduced working capital borrowings and repayment of NCDs and term loans. VTL reported an overall gearing of 0.89x as on March 31, 2021 as compared to 1.21x the previous year. The adjusted gearing, which takes into account the corporate guarantee provided to group company, also improved to 1.14x as on March 31, 2021 (PY: 1.53x). The interest coverage ratio remained fairly stable at 2.98x (PY: 2.87x). With decline in debt levels off-set by decline in PBILDT, total debt to GCA ratio and total debt to PBILDT ratio also remained fairly stable at 6.27x (PY: 6.50x) and 3.39x (PY: 3.37x) respectively.

Key Rating Weaknesses

Large working capital requirements: The operating cycle of the company increased from 296 days in FY20 to 363 days at end of FY21 primarily on account of increase in inventory period and collection period. Although the absolute inventory levels of the company as on March 31, 2021 declined, the inventory holding period increased to 243 days in FY21 (PY: 199 days) owing to the lower operating scale of the company during the year. The average credit period for debtors in the cable segment is around 120 days and around 150 -160 days for the debtors in the EPC segment. The receivables of the company however, increased marginally at the end of FY21. As on September 30, 2021, the position of debtors improved and stood at Rs.893 core as against Rs.1154 crore as on March 31, 2021. Besides, FB limits the average utilization of which remained moderate at 77% for trailing 12 months ended August 2021, VTL has substantially high reliance on NFB limits for procurement of materials and bank guarantee requirements in EPC segment.

Susceptibility to volatility in raw material prices: The main raw materials required are copper, aluminium, compounds and optical fibre. The company procures copper mainly from Hindalco and partially imports it. These purchases are mostly backed by LCs. The other important raw material is the optical fibre which is procured from a group company named Birla Furukawa Fibre Optics Private Limited (rated CARE A; Negative/ CARE A1). The company is insulated against the volatility in optical fibre prices due to this arrangement. Also, for EPC orders, the company has price escalation clauses for large and longer orders. However, the company still remains susceptible to the volatility in the prices of other raw materials which are procured from external sources and time lag in pass through of escalated costs.

Inherent risk associated with execution of large orders in EPC segment: VTL derives major revenue from execution of orders in EPC segment. Majority of the orders are from different telecom and energy companies. Any delay/deferral of operational and capital expenditure plans of customers might impact the operational performance of the company. The company also has large EPC orders from state run companies Indian Telephone Industries Limited for the government's mega project BharatNet which intends to digitally connect 250,000-gram panchayats through optical fibre network. Any financial stress in these companies can cause delay in recovery of payment for VTL.

Prevalent competition in cable and EPC business: Cable business in recent time is experiencing stiff competition in the domestic market on account of higher installed capacity. Further, the demand in cable business is majorly dependent on the operational/capital expenditure from telecom and power distribution companies. Any delay or deferral of such expenditure would impact revenue visibility of companies catering to this business. Also, EPC business continues to face competition due to presence of many players. The order inflow depends on opex of state discoms and telecom companies.

Prospects
The long-term demand outlook for the domestic transmission and distribution industry is expected to be favourable due to the focus on reforms in transmission and distribution segment and investments lined up in the power generation sector to bridge the demand-supply gap. This will boost the EPC segment of the company which has majority of its orders from energy utilities. The prices of optical fibre were low previously leading to lower realizations across the industry. This decline in prices was led by ample availability of optical fibre caused by high capacity expansion undertaken by all the major players across the world and lesser than expected demand from China, which is the largest consumer of optical fibre in the world. However, the demand for optical fibres is bouncing back owing to commencement of 5G deployment across the globe. The domestic demand is also expected to improve owing to huge surge in data consumption as well as 5G rollout for which the telecom players need to build new network capacities as well as enhance their existing infrastructure.

Liquidity: Adequate
The company is expected to report GCA of over Rs.113 crore in FY22 against scheduled debt repayments of around Rs.84 crore. The average utilization of working capital limits stood at around 77% for the last 12 months ended August 31, 2021. The company also holds shares of group companies which are listed and the combined aggregate market value of the same stood at over Rs.1000 crore as on November 24, 2021 (~Rs.750 crore as on March 31, 2021). Moreover, the company has the group support in the form of unsecured loans infused in FY19 and FY20 and is expected to continue, if required. No major capex is planned in FY22.
Analytical approach: Standalone
However, CARE has also considered the corporate guarantee extended by VTL to lenders of its group company, Birla Cable Limited while conducting credit risk assessment of the company.

Applicable Criteria
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology- Service Sector Companies
Liquidity Analysis of Non-financial sector entities

About the Company
VTL is into manufacturing of telecom cables as well as Engineering, Procurement & Construction (EPC) services to telecom, power, gas distribution pipelines and sewage projects. The manufacturing plant of the company is located at Rewa (Madhya Pradesh). The company currently has an Optical Fibre Cable manufacturing capacity of 48 lakh fibre km per annum. It caters to reputed client base like Bharat Sanchar Nigam Limited, Mahanagar Telephone Nigam Limited, Indian Railways, Defense (Indian Army), National Thermal Power Corporation Limited (NTPC), Steel Authority of India Limite), Bharti Airtel Ltd, Reliance Jio Infocom, North Bihar Power Distribution Company Limited etc.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1901.35	1524.50	675.29
PBILDT	278.26	232.62	102.80
PAT	126.90	103.56	45.91
Overall gearing (times)	1.21	0.89	0.72
Interest coverage (times)	2.87	2.98	3.41

A: Audited; UA: Unaudited, Classified as per CARE Standards

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	1540.75	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	610.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	September 2024	39.00	CARE A+; Stable
Debentures-Non-Convertible Debentures	INE707A08041	October 25, 2017	8.40%	October, 2022	50.00	CARE A+; Stable
	INE707A08017	February 10, 2017	8.50%	February, 2022		

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	1540.75	CARE A1+	-	1)CARE A1+ (11-Feb-21)	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (04-Dec-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								2)CARE A1+ (10-Oct-18)
2	Fund-based - LT-Cash Credit	LT	610.00	CARE A+; Stable	-	1)CARE A+; Stable (11-Feb-21)	1)CARE A+; Stable (06-Jan-20)	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)
3	Fund-based - LT-Term Loan	LT	39.00	CARE A+; Stable	-	1)CARE A+; Stable (11-Feb-21)	1)CARE A+; Stable (06-Jan-20)	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)
4	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (11-Feb-21)	1)CARE A+; Stable (06-Jan-20)	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ajay Dhaka
Group Head Contact no: +91-11 - 4533 3218
Group Head Email ID: ajay.dhaka@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**