

UM Cables Limited

January 07, 2022

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|------------------------------|--|--|---------------|
| Long Term Bank Facilities | 5.00 (Reduced from 15.00) | CARE BBB-; Stable (Triple B Minus; Outlook: Stable) | Reaffirmed |
| Short Term Bank Facilities | 59.00 (Enhanced from 49.00) | CARE A3 (A Three) | Reaffirmed |
| Total Bank Facilities | 64.00 (Rs. Sixty-Four Crore Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of UM Cables Limited (UMC) continue to draw strength from the experience of the promoters, established customer base and presence in the export market. The ratings also factor in significant improvement in profitability in FY21 (refers to the period April 1 to March 31) and H1FY22 with improvement in demand scenario for Optical Fibre Cables (OFC) in the telecom cable industry. However, the ratings continue to be constrained by the subdued demand for Jelly Filled Telecom Cables (JFTC), profitability sensitive to volatility in raw-material prices & exchange rate fluctuations and intense competition in the telecom cables industry.

Rating Sensitivities

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

- Increase in scale (operating income > Rs.150 crore) along with improved operational profit on a sustained basis.
- Improvement in capital structure with overall gearing below unity.
- Improvement in order book and customer base.

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

- Reduction in operating income below Rs.75.00 crore on a sustained basis
- Deterioration in profitability
- Any major capex decision by the management impacting capital structure and coverage indicators beyond 2.0x on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

UMC is a wholly owned subsidiary of Usha Martin Limited (UML). UML is the flagship company of Kolkata-based Jhawan group and India's largest wire rope manufacturer. UMC commenced operations in December 1999 and as such has a long track record in the telecom cables industry.

Supplier for established telecom companies and presence in export market

UMC supplies to established domestic telecom companies. OFC is generally preferred over JFTC in high tele-density areas (metros & Tier I cities in India). UMC has gained a niche position in international markets (particularly for OFC). Exports revenue declined from Rs.15.18 crore in FY20 to Rs.10.12 crore in FY21 due to overall decline in demand for JFTC coupled with the impact of COVID-19 pandemic. However, with easing of the restrictions, the export revenues has increased in H1FY22 to Rs.17.51crore. Presence in export market provides diversification to the sales of the company.

Moderate capital structure

The overall gearing ratio improved from 1.90x as on March 31, 2020 to 1.85x as on March 31, 2021 mainly on account of accretion of profits to reserves. Despite lower working capital borrowings, the debt level increased from Rs.34.86 crore as on March 31, 2020 to Rs 39.47 crore as on March 31, 2021 due to increase in LC backed acceptances. However, the interest coverage improved to 2.67x as on March 31, 2021 due to increase in PBILDT level.

The overall gearing ratio stood at 1.33x as on September 30, 2021, due to reduced LC backed acceptances.

Improvement in financial performance in FY21 & H1FY22

The operating income grew by 27% y-o-y in FY21 on the back of healthy orders received for OFC with significant increase in demand for data consumption due to people working and studying from home on account of outbreak of Covid19. The PBILDT margin improved substantially to 10.55% in FY21 as against operational loss in FY20 due to better prices bargained on raw materials (due to early payments). The company achieved PAT of Rs.2.78 crore in FY21 after considering write-off of Rs.1.10 crore of advances pertaining to M/S EMTA Coal Mines. GCA stood at Rs.5.34 crore as against nil debt repayment obligation in FY21.

The total operating income increased in H1FY22 vis-a-vis H1FY21 mainly due to higher demand for OFCs. The company reported PBILDT of Rs.5.01 crore on a total operating income of Rs.52.21 crore as against PBILDT of Rs.2.81 crore on a total

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

operating income of Rs.41.09 crore in H1FY21. The PBILDT margins also increased to 9.59% in H1FY22 (6.84% in H1FY21) due to improved realizations.

Stable demand outlook

The domestic as well as global demand has increased owing to surge in data consumption with people working from home and students having to study online due to Covid-19. Demand for optical fibre cables will also be aided with the 5G rollout.

Key Rating Weaknesses

Profitability sensitive to volatility in raw-material prices & exchange rate fluctuations

Major raw materials for UMC are copper rods, polyethylene and optical fibre. UMC does not enter into long-term agreements with suppliers due to volatility in raw material prices. Further, UMC enters into a price variation clause in most of the contracts to protect its profitability. However, profitability remains exposed to fluctuations in raw-material prices and exchange rate movements on contracts with no price variation clause. Raw-material accounted for around 79% of total cost of sales and around 49% of raw-material was imported in FY21. The foreign exchange risk is mitigated to a certain extent as the company is also an exporter of its products. For FY21, total exports amounted to Rs.10.12crore versus total import of Rs.29.67 crore.

Intense competition

UMC faces stiff competition from various players due to fragmented industry structure as well as presence of larger players in the segment considering its relatively small size. Further, UMC supplies its product to big telecom players. As a result, UMC has a low bargaining power to command significant margin on its product. Further, the demand for JFTC, one of the products of the company is gradually reducing.

Liquidity: Adequate

The company earned GCA of Rs.5.34 crore as against nil debt repayment obligation in FY21. Further, the company has cash and bank balance of Rs.2.87 crore as on September 30, 2021. The company uses LC facility to get credit for imported raw material and as such creditor's period is high. The company also maintains inventory of about 78 days which leads to working capital intensity. The payments from customers have started improving and the same has improved from 106 days in FY20 to 75 days in FY21 which has drastically improved the cash flow situation as such limit utilisation in the last few months have been very low. And accordingly, the company has closed the CC limits with IndusInd & Axis Bank, and only have limits with ICICI Bank (Rs.5.00 crore). The current ratio has also improved at stood at unity as on March 31, 2021. The average month-end utilisation of fund based working capital limits in the last 12 months ended October 2021 stood at 54.86. Further, unsecured loans are infused whenever required from the group to meet liquidity requirement. UML has infused Rs.1.15 crore in FY21 and further Rs.5.25 crore in H1FY22.

Analytical approach: Standalone factoring in linkages with the group

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non -financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

UMC, incorporated in 1987, is a wholly owned subsidiary of Usha Martin Ltd (UML). UMC is engaged in the manufacturing of JFTC and OFC, with an installed capacity of 2.62 Lakh Conductor Kilometre (LCKM) for JFTC and 83,538 Cable Kilometre (CKM) for OFC at Silvassa, Dadra and Nagar Haveli. The company has converted some of its JFTC manufacturing lines into a dual process mechanism where they can be used to produce either JFTC or OFC as required. This step has helped the company to mitigate the impact of decline in demand for JFTC in the telecom industry as well as cater to the growing demand for OFC.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22 (Prov.) |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| Total operating income | 74.22 | 94.02 | 52.21 |
| PBILDT | -11.86 | 9.92 | 5.01 |
| PAT | -10.92 | 2.78 | 5.33 |
| Overall gearing (times) | 1.90 | 1.85 | 1.33 |
| Interest coverage (times) | -3.02 | 2.67 | 4.39 |

A: Audited; Prov.: Provisional

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 | | - | - | - | 59.00 | CARE A3 |
| Fund-based - LT-Cash Credit | | - | - | - | 5.00 | CARE BBB-; Stable |

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 | 59.00 | CARE A3 | - | 1)CARE A3 (16-Feb-21) | 1)CARE A3 (23-Mar-20) 2)CARE A3+ (04-Apr-19) | - |
| 2 | Fund-based - LT-Cash Credit | LT | 5.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (16-Feb-21) | 1)CARE BBB-; Stable (23-Mar-20) 2)CARE BBB+; Stable (04-Apr-19) | - |
| 3 | Term Loan-Long Term | LT | - | - | - | - | 1)Withdrawn (23-Mar-20) 2)CARE BBB+; Stable (04-Apr-19) | - |

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

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

| Sr. No | Name of instrument | Complexity level |
|--------|-----------------------------|------------------|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Non-fund-based - ST-BG/LC | Simple |

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Mrs. Richa Bagaria
Contact no.: +91-033-40181653
Email ID: richa.jain@careedge.in

Relationship Contact

Name: Mr. Lalit Sikaria
Contact no.: + 91-033- 40181600
Email ID: lalit.sikaria@careedge.in

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