Vindhya Telelinks Limited

February 11, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	675.00 (reduced from 1,107.50)	CARE A+; Stable (A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	1,776.51 (reduced from 2,090.50)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	2,451.51 (Rs. Two thousand four hundred fifty one crore and fifty one lakhs only)		
Non-Convertible Debentures Issue	66.50 (reduced from 100.00)	CARE A+; Stable (A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Vindhya Telelinks Limited (VTL) takes into account the positive operating cash flows in both FY20 as well as H1FY21mainly due to reduction in receivables position, despite decline in operational performance on account of adverse impact of the pandemic related lockdown. The ratings continue to derive strength fromwell established, resourceful & experienced promoters, diversified product portfolio with strong market position, favourable financial risk profile and moderate order book position providing medium-term revenue visibility.

The rating strengths are, however, constrained by elongated working capital cycle, inherent risk associated with large and tender based orders, susceptibility to volatile raw material prices and prevalent competition in Engineering Procurement Construction (EPC) as well as cable businesses.

Rating Sensitivities:

Positive Factors

- Significant and sustainable improvement in operating performance with PBILDT margin of more than 20% on a consistent basis
- Improvement in operating cycle by more than 100 days on a sustained basis resulting in decline in working capital utilization.
- Infusion of funds in the form of equity resulting in improvement in the overall gearing ratio

Negative Factors

- *Adjusted overall gearing (considering financial support extended to group companies) beyond 2x on a sustained basis*
- *Further 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

Well established, resourceful & experienced promoters: 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. These businesses are operated through various companies such as Birla Corporation Limited (BCL, rated CARE AA; Stable/ CARE A1+), VTL, 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 unsecured loans in FY19 as well as FY20.During FY20, to support the working capital, the group companies have infused unsecured loans of Rs.100 crore in the company.

Diversified product portfolio: 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 fibre optic cables, copper cables, power cables, specialty cables, solar PV cables and also telecom fibre accessories as well as LED lighting products and solutions. The company has also diversified in railway signaling and quad cables, which will be used in electrification of the track routes by the railways. With sluggish demand and lower prices in the Optical Fibre Cable (OFC) segment, which is a major contributor in the revenue

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

from the cable division, the company has shifted its focus to other categories of cables which hasenabled it to de-risk itself, to an extent, from the lower demand in the OFC segment.
The company 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 energy utilities segment catering to projects which are primarily funded by the Central Government of India. In the telecom segment, the company is 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, 2020 stood at Rs. 1,421.33 crore. The primary reason for lower order book in the current year is slower bidding process due to the lower economic activity level during the first half of the year and delay in receipt of a huge order from BSNL. Another reason for the moderation in order book is lack of IP-1 orders from private telecom players as they did not roll out new network due to their distressed financial position. However, in H2FY21, the company has received orders worth Rs.458 crore.Additionally, the company has submitted bids for projects worth Rs.1,295 crore and it intends to bid for more projects aggregating upto Rs.2,288 crore in H2FY21, thereby improving the position of its current order book.

Favourable financial risk profile however moderate debt coverage indicators:Interest coverage ratio of the company declined from 4.62 times in FY19 to 2.87 times in FY20 on account of lower PBILDT levels as well as higher interest cost, yet continued to remain comfortable. The Total Debt to GCA ratio also deteriorated from 4.87 times in FY19 to 6.50 times in FY20 owing to increase in long term loans as well as unsecured loans.
Total debt of the company increased slightly from Rs. 927.59 crore (considering advance from customers as debt) as on March 31, 2019 to Rs. 928.36 crore as on March 31, 2020 on account of increase in suppliers' credit as well as unsecured loans from group companies. However, the overall gearing ratio of the company decreased from 1.27 times as on March 31, 2019 to 1.19 times as on March 31, 2020. The debt has reduced during H1FY21 and stood at Rs.798.48 crore as on September 30, 2020 which improved the overall gearing at 0.97 times.
VTL continues to extend support to associate & joint venture companies during FY20. The loans guaranteed of Group Company (Birla Cable Limited) stood at Rs. 255 crore as on March 31, 2020 as against Rs. 164.15 crore as on March 31, 2019. Consequently, the adjusted overall gearing of the company stood at 1.53 times as on March 31, 2020 as compared to 1.49 times as on March 31, 2019.

Key Rating Weaknesses
Decline in operational performance in FY20 and H1FY21: VTL reported around 10% decrease in total income in FY20 vis-à-vis FY19 on account of slowdown in both the optical fibre cable and EPC segments. PBILDT margin of the company declined in FY20 to 14.64% from 16.70% in FY19 primarily on account of lower prices of the optical fibre cables.
Further, during H1FY21, the revenue decreased by around 27% on a Y-o-Y basis owing to sluggishness in the industry led by subdued demand as well as lower realizations due to excess capacity globally and elevated inventory levels of Optical Fibre in China. The operations of the company were also adversely affected due to the lockdown imposed during Q4FY20 as well as Q1FY21 in order to control the Covid-19 pandemic. The PBILDT margin of the company however, improved to 16.43% in H1FY21 as compared to 16% in H1FY20.

Working capital intensive operations:The operating cycle of the company increased from 193 days at end-FY19 to 302 days at end-FY20 primarily on account of increase in inventory period (led by increase in inventory of Passive Optical Fibre Network under IP-1).The receivables of the company however, decreased from Rs. 1,228.33 crore at end-FY19 to Rs. 1,143.28 crore at end-FY20.
As on September 30, 2020, the inventory level has come down from Rs. 974 crore (as on March 31, 2020) to Rs. 869 crore. Moreover, as on September 30, 2020, the receivables of the company further decreased to Rs. 976.12 crore. The decrease in receivables'position has resulted in positive operating cash flows for the company.
The average maximum working capital utilization for twelve months ended November 2020 stood high at 84%.

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.

Inherent risk associated with execution of large orders in EPC segment: Going forward, VTL expects to derive major revenue from execution of orders in EPC segment. Majority of the orders are from different SEBs, however, these projects are mainly funded by the Central Government of India. These orders typically have tenure of 18-24 months and the payment terms vary from order to order. This may result in cash flow fluctuations as well as increase in the working capital requirements to support the operations.The company also has large EPC orders from state run companies Bharat Sanchar Nigam Limited (BSNL) and Bharat Broadband Network Limited (BBNL) for the government's mega project BharatNet.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 stiff competition due to presence of many players. The order inflow depends on opex of SEBs. Any delay or deferral of such expenditure would impact revenue visibility and profitability of companies like VTL.

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 have been low leading to lower realizations across the industry. This decline in prices is 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. The oversupply has resulted in surge in cheaper imports from countries like China and Indonesia. However, the demand for optical fibres is expected to bounce 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 achieve more than adequate cash accruals in FY21 against a scheduled repayment of Rs.60.82 crore. Further, the company is expected to generate adequate cash flow from operations against repayment of Rs. 109.22 crore during FY22. On a consolidated basis, VTL has liquid investments of Rs.42.86 crore invested in mutual funds. Moreover, the company and its subsidiaries have investments in group companies which are listed. The current market value of these investments is around Rs.1,894 crore. Further, the company has the group support in the form of unsecured loans being infused in FY20 and is expected to continue, if required. The company has a strong current ratio of 1.56 times as on March 31, 2020 and average fund based utilization at around 76% for 12 month ended November 2020.

Analytical approach:Standalone
However, CARE has also considered the corporate guarantee extended by VTL to its group company, Birla Cable Limited while assessing the debt metrics of the company.

Applicable Criteria
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Criteria on assigning outlook and credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
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. The company 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)	FY19 (A)	FY20 (A)
Total operating income	2107.62	1901.35
PBILDT	351.96	278.26
PAT	168.66	126.90
Overall gearing (times)	1.27	1.21
Interest coverage (times)	4.62	2.87

A: Audited; 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

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	-	-	-	-	1776.51	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	635.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	November 2022	40.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE707A08017 INE707A08017 INE707A08033 INE707A08041	February 10, 2017 February 10, 2017 October 25, 2017 October 25, 2017	8.50% 8.50% 8.40% 8.40%	February 13, 2021 February 15, 2022 October 25, 2021 October 25, 2022	16.50 17.00 17.00 16.00	CARE A+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	1776.51	CARE A1+	-	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (04-Dec-18) 2)CARE A1+ (10-Oct-18)	1)CARE A1+ (13-Nov-17) 2)CARE A1+ (09-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	635.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jan-20)	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)
3.	Fund-based - LT-Term Loan	LT	40.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jan-20)	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)
4.	Debentures-Non Convertible Debentures	LT	66.50	CARE A+; Stable	-	1)CARE A+; Stable (06-Jan-20)	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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.*

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