Birla Cable Limited

February 11, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	65.00@	CARE A+ (CE); Stable [Single A Plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Short term Bank Facilities	123.00@ (reduced from 153)	CARE A1+ (CE) [A One Plus (Credit Enhancement)]	Reaffirmed
Total Facilities	188.00 (Rs. One hundred and eighty eight crore only)		

Details of instruments/facilities in Annexure-1

@ the above ratings are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee from Vindhya Telelinks Limited (VTL, rated CARE A+; Stable/ CARE A1+)

Unsupported Rating [2]	**CARE BBB+(Triple B Plus)/ CARE A2 (A Two)**

Detailed Rationale & Key Rating Drivers for the credit enhanced debt of Birla Cable Limited

The ratings assigned to the bank facilities of Birla Cable Limited (BCL) factor in credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by Vindhya Telelinks Limited (VTL, rated CARE A+;Stable/ CARE A1+) towards timely servicing of debt obligations. The above ratings are solely based on the CARE's view on guarantor's credit profile and accordingly the rating rationale highlights the credit risk assessment parameters for guarantor.

Detailed Rationale & Key Rating Drivers of Vindhya Telelinks Limited (the Guarantor)

The credit profile 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 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.

Key Rating Drivers of Birla Cable Limited for unsupported ratings

The ratings derive strength from well-established, resourceful and experienced promoters, operational synergies as well as financial support extended by VTL and group companies and a moderate financial risk profile supported by a robust capital structure.

The above rating strengths are however tempered by decline in operating and financial performance in FY20, which improved in H1FY21, concentrated yet reputed clientele profile, working capital intensity associated with its operations, susceptibility to volatile raw material prices as well as prevalent competition in the cable industry.

Well established and experienced promoters: BCL is a 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. The day-to-day operations of the company are managed by a team of experienced and qualified personnel who have over three decades of experience in the cables industry.

Support extended by VTL as well as operational synergies: During FY20, subsidiaries of VTL as well as other group companies have infused Rs.15 crore in the form of unsecured loans to support the operations of the company. Also, BCL acts as one of the suppliers of optical fibre cables for VTL's telecom related EPC orders.

Deterioration in operating and financial performance in FY20 albeit improved during H1FY21: The revenue in FY20 decreased significantly by around 55% to Rs. 225.27 crore on account of sluggish demand in the telecom market (including

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

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

export market) and other critical factors like low fibre prices alongwith softening in the demand of the same due to excess capacity as well as reduction in network rollout from various customers. The PBILDT margin also deteriorated from 16.17% in FY19 to 8.49% in FY20 on account of lower realizations However, during H1FY21, the revenue improved by around 8% on a Y-O-Y basis on account of slight improvement in the demand led by surge in data consumption.

Moderate financial risk profile: The company has a robust capital structure with an overall gearing of less than unity. The debt mainly comprises of working capital borrowings and unsecured loans from group companies.

Concentrated customer profile albeit with reputed customers: The company has a reputed client base which consists of telecom service providers, ISP providers, telecom related accessories providers, etc. However, the customer profile is quite concentrated with around 69% of the domestic revenue being contributed by top five clients in FY20.

Working capital intensive operations: The company's average utilisation of fund based working capital remained moderate at 41% for 12 months ended November 30, 2020. The operating cycle of the company deteriorated in FY20 to 224 days (86 days in FY19) primarily due to significant decrease in the revenue. The operations of the company remain working capital intensive mainly due to pending receivables from Government entities like BSNL which are in a distressed position as well as due to exports which have a longer credit period.

Susceptibility to volatility in raw material prices: The company's operations are raw-material intensive since it is the major component of the operating cost. One of the major raw materials i.e. optical fibre is is primarily procured from a group company named Birla Furukawa Fibre Optics Private Limited (rated CARE A; Negative/ CARE A1), thereby ensuring backward integration to an extent. However, the company externally procures other raw materials like copper, aluminium and compounds, which exposes it to the volatility in prices of such commodities.

Prevalent competition in cable 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.

Rating Sensitivities (VTL):

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-VTL

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 from the cable division, the company has shifted its focus to other categories of cables which has enabled 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 (VTL)

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 as well as Guarantor's (Vindhya Telelinks Limited) assessment.

While assessing the Guarantor's credit risk profile, CARE has also considered the corporate guarantee extended by VTL to BCL, primarily for analyzing 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
Criteria to Rate Credit Enhanced Debt
Rating Methodology: Factoring Linkages in Ratings
Liquidity Analysis of Non-Financial Sector Entities

About the Company – Vindhya Telelinks Limited

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

About the Company – Birla Cable Limited

BCL, incorporated in 1992, belongs to M P Birla group and is engaged in manufacturing and sales of all types of Optical Fibre Cables, Copper Telecommunication Cables, Structured Copper Cables, Specialty cables and allied accessories. The company has a manufacturing plant at Rewa, Madhya Pradesh with a total capacity of around 36,00,000 fibre km. The company is currently headed by Mr. Harsh V. Lodha (Chairman).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	504.96	225.27
PBILDT	81.65	19.12
PAT	47.03	1.02
Overall gearing (times)	0.35	0.49
Interest coverage (times)	16.77	2.68

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	65.00	CARE A+ (CE); Stable
Non-fund-based - ST-Working Capital Limits	-	-	-	2.35	CARE A1+ (CE)
Non-fund-based - ST-BG/LC	-	-	-	120.65	CARE A1+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BBB+ / CARE A2

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.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+ (CE); Stable	-	1)CARE A+ (CE); Stable (06-Jan-20) 2)CARE AA- (SO); Stable (02-Apr-19)	1)CARE AA- (SO); Stable (04-Dec-18) 2)CARE AA- (SO); Stable (10-Oct-18)	1)CARE AA- (SO); Stable (09-Oct-17)
2.	Non-fund-based - ST-Working Capital Limits	ST	2.35	CARE A1+ (CE)	-	1)CARE A1+ (CE) (06-Jan-20) 2)CARE A1+ (SO) (02-Apr-19)	1)CARE A1+ (SO) (04-Dec-18) 2)CARE A1+ (SO) (10-Oct-18)	1)CARE A1+ (SO) (09-Oct-17)
3.	Non-fund-based - ST-BG/LC	ST	120.65	CARE A1+ (CE)	-	1)CARE A1+ (CE) (06-Jan-20) 2)CARE A1+ (SO) (02-Apr-19)	1)CARE A1+ (SO) (04-Dec-18) 2)CARE A1+ (SO) (10-Oct-18)	1)CARE A1+ (SO) (09-Oct-17)
4.	Fund-based-Long Term	LT	-	-	-	-	1)Withdrawn (04-Dec-18) 2)CARE AA- (SO); Stable (10-Oct-18)	1)CARE AA- (SO); Stable (09-Oct-17)
5.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB+ / CARE A2	-	1)CARE BBB+ / CARE A2 (06-Jan-20)	-	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple
3.	Non-fund-based - ST-Working Capital Limits	Simple
4.	Un Supported Rating-Un Supported Rating (LT/ST)	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
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Sharmila Jain
Contact no. - +91-22-6754 3638
Email ID- sharmila.jain@careratings.com

Relationship Contact
Saikat Roy
Contact no. - +91-22-6754 3404
Email ID: saikat.roy@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**