Universal Cables Limited

December 13, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	702.00 (Enhanced from 527.43)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	16.00 (Reduced from 18.00)	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Short-term bank facilities	1,205.00 (Enhanced from 1,105.00)	CARE A1 (A One)	Reaffirmed
Total bank facilities	**1,923.00 (₹ One thousand nine hundred twenty-three crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Universal Cables Limited (UCL) continues to derive strength from the experienced and resourceful promoters with demonstrated funding support to the company, its long and well-established track record in the cables business supported by technical collaboration with Furukawa Electric Company Limited (FECL), Japan. The ratings also factor in the company's adequate order book position providing medium-term revenue visibility and improvement in overall operational performance in FY22 (refers to the period April 01 to March 31) and H1FY23 (UA). The rating strengths, however, remain partially offset by modest financial risk profile, inherently working capital-intensive nature of operations, risks associated with the fluctuation in raw material prices (however, partially mitigated after the setting-up of the hedging desk) and prevalent competition in the cable and Engineering Procurement Construction (EPC) businesses.

Rating sensitivities

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

• Increase in total operating income over ₹2000 Cr with improvement in PBILDT margin to than 12% and ROCE above 15% on a sustained basis
• Overall gearing at 0.80x on a consistent basis and total debt/PBILDT ratio below 3 times
• Improvement in the operating cycle to less than 120 days on a sustained basis

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

• Decline in profitability margins marked by PBILDT margin of less than 8% or ROCE below 10% on a sustained basis
• Increase in overall gearing beyond 1.2x
• Operating cycle remaining elongated or deteriorating beyond 180 days

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoter group with demonstrated funding support

UCL 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, power capacitors and telecom cables. Besides UCL, these businesses are operated through various companies such as Birla Corporation Limited (BCL, *rated CARE AA; Stable/CARE A1+*) and Vindhya Telelinks Limited (VTL, *rated CARE A+; Stable/CARE A1+*). The M.P. Birla Group continues to exhibit financial support to UCL in the form of unsecured loans/inter-corporate deposits which stood at ₹148 crores as on March 31, 2022 (same level as last year). In the past, the group had extended financial support to UCL to fund the capital expenditure for enhancement of the existing manufacturing capacities and working capital requirements of the company, as and when required.

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

Well established track record in the cables business supported by technical collaborations

The company has an established track record of over five decades in the power cable business. The day-to-day operations of the company are managed by a team of experienced and qualified personnel having significant experience in cable industry headed by Mr. H.V. Lodha (Chairman). UCL's cable division has a very wide range of products including Low Voltage (LV), Medium Voltage (MV) and Extra High Voltage (EHV) power cables up to 500 kV grade and PVC and Rubber insulated power cables up to 11 kV grade. This enables the company to cater to a wide range of customer requirements. Furthermore, UCL has technological tie-up with FECL, Japan. The company has installed two Vertical Continuous Vulcanizing (VCV) line with the technology from FECL to meet the demand for EHV cables. UCL has also tied-up with Viscas Corporation, Japan (Power Cable Alliance of Furukawa & Fujikura) for sourcing new generation cable jointing accessories for 220 kV and above.

Improved operational performance during FY22 and H1FY23 (UA)

On the back of healthy order book and re-opening of the economy post the pandemic, UCL reported a healthy year-on-year growth of ~42% in its total operating income. The operations of the company are largely reliant on growth in the infrastructure spending and the same improved due to better economic conditions in the sector post the setback received from the pandemic. The PBILDT margins of the company, however, moderated by 35 bps to 6.92% in FY22 (PY: 7.27%) due to considerable fluctuation in the commodity prices (such copper, aluminium, etc.). The demand has remained healthy in H1FY23 (UA) also, especially in the high value and better margin EHV segment. The operating income witnessed a healthy growth of ~40% in H1FY23 (UA), compared to the same period last year on the back of healthy order execution. The PBILDT margins improved to 9.26% during the period, compared to 6.86% reported in the same period last year. The margins in H1FY22 (UA) were impacted owing to significant adverse movement in the raw material prices, which impacted the profitability in the fixed-priced orders. However, during current year, the margins were better managed by increasing focus on the hedging of the raw material prices. In Jan-2022, the company set up a hedging desk which books the raw material at the time of receipt of orders, thus mitigating the risk arising from the adverse movement in raw material prices.

Adequate order book position providing medium-term revenue visibility

UCL has an outstanding order book of ₹1297 crore as on September 30, 2022, coupled with orders worth ₹653 crores in pipeline (where delivery dates are yet to be ascertained by the clients), which provides medium-term revenue visibility. These orders are majorly for EHV and MV power cables from various private power companies, railways as well as state utilities. The company is a dominant player in the EHV segment and undertakes EPC (turnkey) contracts in this segment apart from supplying cables. The scope of these contracts includes manufacturing (as per technical specification), supplying and laying, installation and commissioning of cables.

<u>Key rating weaknesses</u>

Leveraged capital structure and moderate (though improving) debt coverage indicators

The total debt of the company increased from ₹480 crore as on March 31, 2021 to ₹620 crore as on March 31, 2022 on account of increase in the term debt availed by the company for modernisation of its capacities and augmentation of the working capital. Resultantly, the overall gearing ratio of the company moderated to 0.87x as on March 31, 2022 as against 0.76x as on March 31, 2021. However, owing to better profitability during FY22, total Debt to GCA ratio of the company marginally improved from 12.48 times in FY21 to 11.46 times in FY22 albeit it remained high. Interest coverage ratio of the company also improved from 1.48x times in FY21 to 1.62 times in FY22. In H1FY23 (UA), on the back of healthy profit generation, the interest coverage ratio stood at 2.08x in H1FY23 (UA), compared to 1.50x in H1FY22 (UA). Nonetheless, the debt metrics remains modest due to elevated debt levels and moderate profitability profile of the company.

Working capital intensive operations leading to high reliance on working capital borrowings

UCL's operations continue to remain working capital intensive. The company continues to have higher debtor level as major counter parties are in power industry where payment terms are elongated. The credit period extended by the company to the cable (pure supply) customers is generally up to 120 days. The company is also into EPC business where instead of relying on high interest-bearing advance from customers, it avails funding from banks. Generally, the payment cycle in case of EPC orders is between 150-195 days. However, the company's working capital cycle improved from 220 days during FY21 to 163 days during FY22, on account of decrease in the collection period from 233 days in FY21 to 182 days in FY22. This was mainly due to better debtor realisations in FY22 (despite ~42% increase in operating income on a year-on-year basis), compared to the end of FY21, where the debtor accumulation also happened because of the adverse effect of Covid-19 pandemic. The EPC/turnkey project generally takes 18-24 months for the completion which leads to the accumulation of debtors due to milestone-based payment mechanism. Further, a significant proportion of sales were made in Q4FY22 (~33% of the full year FY22 sales) which also resulted in accumulation of debtors at the end of the year. The outstanding receivables increased to ₹996 crore as on March 31, 2022, as against ₹803 crore as on March 31, 2021. The outstanding receivables as on September 30, 2022, stood at ₹1012 crore with the operating income growing by a healthy ~40% in H1FY23 (UA), compared to the same period last year. The average working capital utilization continued to remain high at over 85% for 12 months ended September 30, 2022 with few instance of utilization going beyond 95%. High working capital intensity has a bearing on the company's return indicators such as ROCE which stood at 10.35% in FY21 and 13.73% in FY22.

Exposure to volatility of raw material prices
UCL is in cable manufacturing segment and continues to be exposed to volatility in raw material prices. Copper, Aluminum and Polyethylene are key materials consumed in cables segment. The orders under cables segment have partial price fluctuation clause, restricting ability of company to pass-on increase in raw material costs. While bidding for orders, the company ties up raw materials as an attempt to capture the anticipated escalation in raw material prices, thus mitigating volatility of prices to an extent. Further, for EPC orders, the company has price escalation clauses for large and longer-period orders. UCL has also started a full-fledged hedging desk since Jan-2022 to hedge itself from any adverse fluctuations in the raw material prices, for the orders which are fixed-price in nature. The company also engages in hedging programmes, by way of forward contracts, currency swaps and interest rate swaps, to hedge its foreign exchange exposure with respect to its imports and borrowings (outstanding of Rs.10.49 cr., as on March 31, 2022,) denominated in foreign currency. Apart from that company's exports (~Rs.104 cr. in FY22) are generally denominated in USD and provide a natural hedge to some extent against foreign currency payments. UCL also avails a part of its working capital borrowings in foreign currency to hedge itself against any adverse fluctuations. In FY22, the company derived an additional income of Rs.2.83 cr. (Rs.2.44 cr. in FY21) on account of favourable foreign currency movements.

Inherent execution risks and competition in cable industry
UCL continues to derive major revenue from cable business (~72% of the total operating income in FY22). These orders are from various user industries mainly power sector (more than 75%). Any delay/deferral of operational expenditure by these companies might adversely impact the operational performance and consequently the overall business prospects of the company. Further, in the cable industry with the presence of organised and unorganised players, the business environment is quite competitive. However, the company's established position in cables business mitigates this risk to an extent.

Industry Prospects
Indian wire and cable market, which stood at USD 8.5-9 billion in FY21 is expected to grow by over 10% per annum in medium term. The market growth is expected to be driven by factors such as the growth in renewable power generation, expansion and revamping of infrastructure, increasing investments in metro, railways, etc. UCL is one the leading brands in wires and cable industry and holds sizeable market share in EHV cables. The company is amongst few players in manufacturing EHV cables in India and caters to growing demand in this segment. This creates a huge entry barrier as a new player will take anywhere between 4 and 8 years to qualify to bid for tenders. The growing energy demand in India propelled by sustained economic growth and urbanization has also bolstered the renewable energy sector. With this, the need for strengthening of transmission and distribution sector has accentuated to reduce transmission & distribution losses. The government's focus on power for all, rural electrification and improving infrastructure is expected to increase the demand for cables and wires

Liquidity: Adequate
The company has a debt repayment obligation of ₹40 crore in FY23, for which its cash accruals for the year are expected to remain adequate. In FY22 and H1FY23 (UA), the company had generated cash accruals of ₹54.15 crore and ₹45.49 crore, respectively. The operations of the company remain working capital intensive in nature resulting in average working capital limit utilization of ~86% for past 12 months ended September-2022. The company has planned a replacement/ modernisation capex amounting to ₹137 crore for the FY23-FY25 period, which is proposed to be funded through an external debt of ₹40 crore, while the remaining is planned to be funded through internal accruals. The group has demonstrated track record of supporting the entity, as and when required, as evident from the outstanding subordinated unsecured loans of ₹148 crore as on March 31, 2022. Accordingly, in the event of exigencies, the promoter group is expected to extend support to the entity.

Analytical approach: Standalone after factoring in demonstrated group support

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
Policy on Withdrawal of Ratings

About the company

UCL, part of M.P. Birla Group, is into manufacturing of power cables and capacitors for power industry, rubber cables for Original Equipment Manufacturers (OEM) and other industries like railways, steel plants, petrochemical plants, cement plants, oil rig manufacturers, ship building, mining and telecom cables. The power cables of the company are sold under the brand 'UNISTAR'. The company also has a technical collaboration with Furukawa Electric Company Ltd, Japan in the Extra High Voltage (EHV) cable sector and adopts Vertical Continuous Vulcanization (VCV) and Pressurized Liquid Salt Bath Curing (PLCV) technology for manufacturing power and rubber cables respectively. Apart from manufacturing power cables for multifarious applications, UCL has dedicated EPC team to execute turnkey contracts for various utilities/projects in the EHV segment.

Brief standalone financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	1,283.11	1,816.37	1033.28
PBILDT	93.27	125.75	95.71
PAT	12.17	30.48	35.18
Overall gearing (times)	0.76	0.87	0.97
Interest coverage (times)	1.48	1.62	2.08

A: Audited; UA: Unaudited; Financials are reclassified as per CARE Ratings' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	500.00	CARE A; Stable
Non-fund-based - LT-Letter of credit		-	-	-	22.50	CARE A; Stable
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	16.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	1205.00	CARE A1
Term Loan-Long Term		-	-	March 31, 2027	179.50	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	1205.00	CARE A1	-	1)CARE A1 (02-Nov-21)	1)CARE A1 (30-Nov-20)	1)CARE A1 (23-Mar-20)
2	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	16.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (02-Nov-21)	1)CARE A; Stable / CARE A1 (30-Nov-20)	1)CARE A; Positive / CARE A1 (23-Mar-20)
3	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (02-Nov-21)	1)CARE A; Stable (30-Nov-20)	1)CARE A; Positive (23-Mar-20)
4	Non-fund-based - LT-Letter of credit	LT	22.50	CARE A; Stable	-	1)CARE A; Stable (02-Nov-21)	1)CARE A; Stable (30-Nov-20)	-
5	Term Loan-Long Term	LT	179.50	CARE A; Stable	-	1)CARE A; Stable (02-Nov-21)	1)CARE A; Stable (30-Nov-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 - LT-Letter of credit	Simple
3	Non-fund-based - LT/ ST-Derivative Limits	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term Loan-Long Term	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 instruments: CARE Ratings 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.

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