

Universal Cables Limited

July 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	687.93 (Enhanced from 679.50)	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	16.00	CARE A; Stable / CARE A1	Reaffirmed
Short Term Bank Facilities	1,319.07 (Enhanced from 1,205.00)	CARE A1	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Universal Cables Limited (UCL) continue to derive strength from the experienced and resourceful promoters with demonstrated funding support to the company and its 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 FY23 (refers to the period April 01 to March 31) after witnessing a dip in FY21 and FY22. The rating strengths, however, remain partially offset by the moderate 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.

Care Ratings Limited (Care Ratings) has withdrawn the ratings assigned to certain long-term bank facilities of UCL with immediate effect as the company does not propose to avail the same and there is no outstanding against the facilities as on date.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Sustained increase in total operating income over ₹2,000 crore with improvement in PBILDT margin to more than 10% and ROCE above 15% on a sustained basis.
- Overall gearing below 0.80x on a consistent basis and total debt/PBILDT ratio below 2.5 times.
- Sustaining the improvement in the operating cycle.

Negative Factors

- 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.

Analytical approach: Standalone after factoring in demonstrated group support

Outlook: Stable

The stable outlook reflects that UCL is expected to maintain its operating risk profile with its established presence in the cables industry supported by the order book in hand. The solvency and liquidity position of the company is also expected to remain stable with support envisaged from the promoter group, whenever required.

Detailed description of the key rating drivers:

Key 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 diverse 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 and Vindhya Telink Limited (VTL, rated CARE A+; Stable/CARE A1+). The M.P. Birla Group has exhibited financial support to UCL in the form of subordinated unsecured loans/inter-corporate deposits which stood at

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

₹148 crore as on March 31, 2023 (same level as previous fiscal). 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. CARE Ratings expects this support to continue in the future as well.

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 cables business. UCL's cable division has a 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 FY23: On the back of healthy order book, UCL reported a healthy year-on-year growth of about 21% in its TOI (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 demand remained healthy in FY23, especially in the high value and better margin EHV segment and is expected to continue to remain so.

The PBILDT margin improved to 8.42% in FY23 (PY: 6.92%) with better product mix, increase in capacity utilisation and benefits derived from hedging of raw material risk. In Jan-2022, the company had set up a hedging desk to better manage raw material price volatility exposure.

Adequate order book position providing medium-term revenue visibility: UCL had an outstanding order book of ₹1380 crore as on March 31, 2023, along with orders worth ₹157 crore in pipeline (where delivery dates are yet to be ascertained by the clients), and it has been declared the lowest bidder (L1) for orders valuing ₹721 Cr 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.

Improvement in debt coverage indicators and overall capital structure: Due to working capital intensive nature of operations and debt funded capital expenditure in past, company's capital structure is moderately leveraged. Overall gearing of the company improved to 0.62x as on March 31, 2023 (PY: 0.85x). This was mainly on account of improvement in networth base due to accretion of profits to reserves and fair value gain on investments in group entities.

Also, owing to better profitability during FY23, total Debt to GCA (including acceptances) of the company improved from 11.16x as on March 31, 2022, to 6.31x as on March 31, 2023, though remaining on the higher side. The interest coverage ratio also stood at an improved level of 1.90x in FY23, compared to 1.62x in FY22.

Going forward, with no major debt-funded capex plans in the medium term apart from routine capex towards debottlenecking and improving operating efficiency, the capital structure and debt coverage indicators are expected to remain stable.

Stable industry prospects: Indian wire and cable market is expected to grow by over 10% per annum in medium term. The growth is expected to be driven by growth in renewable power generation, expansion and revamping of infrastructure, increasing investments in metro, railways, etc. UCL is one the established brands in wires and cable industry. The company is amongst few players in manufacturing EHV cables in India and caters to growing demand in this segment. This creates an 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.

Key Weaknesses

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. 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. However, the company's working capital cycle improved from 160 days during FY22 to 141 days during FY23, on account of decrease in the collection period from 180

days in FY22 to 155 days in FY23. The outstanding receivables however decreased to ₹890 crore as on March 31, 2023, as against ₹968 crore as on March 31, 2022.

The average working capital utilization continued to remain high at over 84% for 12 months ended April 30, 2023.

Exposure to volatility of raw material prices: Copper, aluminium and polyethylene are key materials consumed in cables segment, the prices of which are volatile. 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. 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 (about 35% of the order book as on March 31, 2023). 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 denominated in foreign currency. Apart from that, company's exports (about ₹95 crore in FY23) 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 FY23, the company derived an additional income of ₹5.85 crore (₹2.83 crore in FY23) on account of favourable foreign currency movements.

Inherent execution risks and competition in cable industry: UCL continues to derive major revenue from cable business (about 72% of TOI in FY23). 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.

Liquidity: Adequate

The company is expected to generate adequate gross cash accruals to meet its repayment obligation of ₹43.14 crore in FY24. However, the operations of the company remain working capital intensive and its reliance on working capital borrowings remains high. The average fund based working capital limit utilization stood high at about 84% for the trailing 12 months ended April 2023. The average monthly non-fund-based working capital limit utilisation stood at 79.25% for the same period. The group has demonstrated track record of supporting UCL, when required, as evident from outstanding ICDs/USLs of around ₹148 crore as on March 31, 2023. Accordingly, in the event of exigencies, the promoter group is expected to extend support to the entity. UCL does not have any major capex plans in the medium term and has headroom in its overall gearing to raise debt, if required.

Environment, social, and governance (ESG) risks:

UCL is subject to increasing environmental compliance specially in terms of raw material sourcing and energy consumption. It undertakes various steps to minimise the wastages in the entire supply chain. The company has also installed roof top solar plant in its units to partially reduce the dependence on conventional source of energy.

UCL spent ₹0.74 crore for various Corporate Social Responsibility (CSR) projects in FY22. 50% of the members of the board are independent directors.

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](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Cables - Electricals

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 Financials (₹ crore)	FY22 (A)	FY23 (Abridged)
Total operating income	1,816.37	2,201.95
PBILDT	125.75	185.36
PAT	30.48	63.19
Overall gearing (times)	0.85	0.62
Interest coverage (times)	1.62	1.90

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

Note: 'the above results are latest financial results available'

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	16.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	1319.07	CARE A1
Term Loan-Long Term		-	-	March 2027	187.93	CARE A; Stable

Annexure-2: Rating history for the last three years

		Current Ratings	Rating History
--	--	-----------------	----------------

Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	1319.07	CARE A1	-	1)CARE A1 (13-Dec-22)	1)CARE A1 (02-Nov-21)	1)CARE A1 (30-Nov-20)
2	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	16.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (13-Dec-22)	1)CARE A; Stable / CARE A1 (02-Nov-21)	1)CARE A; Stable / CARE A1 (30-Nov-20)
3	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (13-Dec-22)	1)CARE A; Stable (02-Nov-21)	1)CARE A; Stable (30-Nov-20)
4	Non-fund-based - LT-Letter of credit	LT	-	-	-	1)CARE A; Stable (13-Dec-22)	1)CARE A; Stable (02-Nov-21)	1)CARE A; Stable (30-Nov-20)
5	Term Loan-Long Term	LT	187.93	CARE A; Stable	-	1)CARE A; Stable (13-Dec-22)	1)CARE A; Stable (02-Nov-21)	1)CARE A; Stable (30-Nov-20)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the 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.

Media Contact Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Name: Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Analytical Contact Name: Hardik Shah Director CARE Ratings Limited Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Name: Mamta Muklania Associate Director CARE Ratings Limited Phone: +91-33-4018 1651 E-mail: mamta.khemka@careedge.in Name: Karan Ahluwalia Lead Analyst CARE Ratings Limited E-mail: Karan.Ahluwalia@careedge.in
--	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in