Birla Cable Limited

January 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	65.00@ (reduced from 98.00)	CARE A+ (CE); Stable [A Plus (Credit Enhancement); Outlook: Stable]	Revised from CARE AA-(CE); Stable[Double A Minus (Credit Enhancement); Outlook: Stable]
Short term Bank Facilities	153.00@ (enhanced from 253.00)	CARE A1+ (CE) [A One Plus (Credit Enhancement)]	Reaffirmed
Total Facilities	218.00 (Rs. Two hundred and eighteen 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 revised from AA-;Stable and 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 revision in the long-term rating assigned to the bank facilities as well as instruments of Vindhya Telelinks Limited (VTL) is on account of increase in the working capital cycle resulting in weakening of financial risk profile and debt coverage indicators during FY19 and H1FY20. The average collection period has increased and the operating cash flows have been negative mainly on account of increase in proportion of EPC business. Despite unsecured loans from promoter group companies infused in FY19 and H1FY20 to support the increase in working capital requirements, the working capital utilization of bank limits has remained high.

The ratings, however, continue to derive strength from well established, resourceful & experienced promoters, diversified product portfolio with strong market position, continual demonstration of favourable operational performance in FY19 which deteriorated during H1FY20 as well as moderate order book position providing medium-term revenue visibility.

The ratings continue to be constrained by 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.

Achievability of envisaged operational performance and debt coverage metrics would be key rating monitorables. Any further extension of financial support to group/associate companies impacting overall financial risk profile of the company would be key rating sensitivities.

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, improved operating and financial performance of BCL in FY19 which deteriorated during H1FY20 and a moderate financial risk profile supported by a robust capital structure.

The above rating strengths are however tempered by 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.

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[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).

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 H1FY20, subsidiaries of VTL have infused Rs.10 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.

Improvement in operating and financial performance in FY19 albeit deterioration during H1FY20: The revenue in FY19 increased significantly due to huge order volumes and quick execution. The PBILDT margin also improved from 11.02% in FY18 to 16.17% in FY19 on account of better realizations. However, during H1FY20, the revenue as well as profitability dropped significantly on a Y-O-Y basis on account of sluggish demand in the telecom market (including export market) and other critical factors like low fibre prices alongwith softening in the demand of the same due to excess capacity, funds constraint with Government Customer (BSNL), etc.

Moderate financial risk profile: The company has a robust capital structure with an overall gearing of less than 1.0x. The debt mainly comprises of working capital borrowings and has negligible repayments in the next three years. The company has a moderate capital expenditure in the current year which is primarily being funded by internal accruals.

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 74% of the domestic revenue being contributed by top five clients in FY19.

Working capital intensive operations: The company's average utilisation of fund based working capital remained moderate at 69% for 12 months ended September 30, 3019. The operating cycle of the company remained at 86 days (85 days in FY18) in FY19. 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 business is 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+; Stable/ 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 improvement in the order book position and 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.*

Negative Factors

- *Adjusted overall gearing (considering financial support extended to group companies) beyond 2x on a consisted basis.*
- *Further deterioration in operating cycle by more than 100 days.*

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; Positive/ 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 H1FY20.During FY19, to support the working capital, the group companies have infused unsecured loans of Rs.150 crore in the company which further increased to Rs.250crore as on September 30, 2019.

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, speciality 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 would enable 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.Apart from energy and telecom, the company also undertakes EPC activities for Sewerage Pipeline projects, Lift Irrigation projects and all other allied project segments.

Favourable operational performance in FY19, but declined during H1FY20: During FY19, VTL reported around 56% increase in total income as compared to FY18 on account of execution of orders both in optical fibre cable and EPC segment. The PBILDT margin of the company improved in FY19 to 16.70% from 13.76% in FY18 on account of better realisations in both cable as well as EPC segments. However, during H1FY20, the revenue decreased by around 12% 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 PBILDT margin of the company also decreased to 16.00% during H1FY20 from 18.08% in H1FY19 on account of lower realisations in both cable as well as EPC segments and higher interest cost due to delayed recovery of overdue receivables from BSNL.

Moderate order book position providing medium term revenue visibility: VTL's outstanding order book position as on September 30, 2019 stood at Rs. 2,017.26 crore.However, the company also has orders worth Rs. 1,720.97 crore in where VTL is L1 and work order is yet to be announced. The main reason for lower order book in the current year is lack of tenders being floated by the government in the year 2019, lack of IP-1 orders from private telecom players led by prevailing weakness in the sector and non-receipt of a huge order from BSNL, which the company had earlier expected to receive in October 2018 and has not received the same till date. The company envisages that this order would be released with the revival packages being announced for BSNL.Additionally, the company has submitted bids for projects worth Rs.3,025 crore and it intends to bid for more projects aggregating upto Rs.6,995 crore and expects that the position of its current order book would improve by March 2020.

Key Rating Weaknesses
Weakening of the financial risk profile and debt coverage indicators: Interest coverage ratio of the company improved from 3.94 times in FY18 to 4.62 times in FY19 on account of higher PBILDT levels. The Total Debt to GCA ratio also improved from 5.19 times in FY18 to 4.87 times in FY19 owing to healthy cash accruals.
Total debt of the company however increased from Rs. 510.99 crore (considering advance from customers as debt) as on March 31, 2018 to Rs. 924.17 crore as on March 31, 2019 on account of increase in working capital borrowings as well as unsecured loans from group companies. Consequently, overall gearing ratio of the company increased from 0.97x as on March 31, 2018 to 1.27x as on March 31, 2019. The debt continued to increase further during H1FY20 and stood at Rs.984.91 crore as on September 30, 2019 which further deteriorated the overall gearing at 1.38x.
Also, VTL continued to extend support to associate & joint venture companies during FY19. The loans guaranteed of group Company (Birla Cable Limited) stood at Rs. 164.15 crore as on March 31, 2019 as against Rs. 179.65 crore as on March 31, 2018. Consequently, the adjusted overall gearing of the company stood at 1.49x as on March 31, 2019 as compared to 1.31x as on March 31, 2018.

Working capital intensive operations: The operating cycle of the company increased from 155 days at end-FY18 to 193 days at end-FY19 on account of increase in inventory period (led by increase in inventory of IP-1 project) as well as higher collection period during FY19. The receivables of the company (including unbilled revenue) increased from Rs. 721.41 crore at end-FY18 to Rs. 1,230.08 crore at end-FY19 on account of progressive payment schedule and retention money withheld by customers in certain projects of EPC business segment as well as delay in recovery of pending receivables from certain clients (mostly SEBs in EPC segment and BSNL in cable segment).

As on September 30, 2019, the receivables position slightly improved but remained high at Rs. 1211.89 crore. Also, out of the receivables due from BSNL of Rs. 109.37 cr as on September 30, 2019, the company has received 65.86 crore till date. The pending amount is expected to be received till March 2020.
The average maximum working capital utilization for 12 months ended September 2019 stood high at 95%. The high working capital cycle due to the nature of the EPC business has resulted in negative operating cash-flows which adversely impacts the financial risk profile of the company.

Susceptibility to volatility in raw material prices, albeit low: 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+; Stable/ CARE A1+). The company is insulated to the volatility in optical fibres 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. With the prevailing weakness in the telecom sector, these companies are currently facing financial stress which has adversely impacted the company's business profile. However, with the revival package announced for BSNL as well as Government's intent to bring the BharatNet project back on track, the financial stress in these companies is expected to reduce which in turn will improve demand 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 very 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. This weakness in demand and lower realizations is expected to continue in the medium term. However, the demand for optical fibres is expected to bounce back from China owing to commencement of 5G deployment. The domestic demand is also expected to improve owing to huge surge in data consumption for which the telecom players need to build new network capacities as well as enhance their existing infrastructure.

Liquidity: Adequate (VTL)
As on September 30, 2019, the company had free cash balances to the extent of Rs.85.05 crore. Further, the company is expected to achieve more than adequate cash accruals against scheduled repayments of Rs.30.83 crore in FY20 and Rs.84.33 crore in FY21. Also, the company has the group support in the form of unsecured loans being infused in FY19 as well as H1FY20. On a consolidated basis, VTL has liquid investments of Rs.55.14 crore invested in mutual funds. The company has an average fund based utilization of around 87% for 12 months ended September 30, 2019.

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 criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's policy on Default Recognition
Factoring Linkages in Ratings
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology-Construction Sector
Criteria to Rate Credit Enhanced Debt

About the Company – Vindhya Telelinks Limited
VTL is into manufacturing of telecom cables and 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 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 Limited, Bharti Airtel Ltd, Reliance Jio Infocomm Limited , North Bihar Power Distribution Company Limited etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1351.14	2107.62
PBILDT	185.89	351.96
PAT	83.33	168.66
Overall gearing (times)	0.98	1.27
Interest coverage (times)	3.94	4.62

A: Audited

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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	326.35	504.96
PBILDT	35.98	81.65
PAT	16.13	47.03
Overall gearing (times)	0.37	0.35
Interest coverage (times)	9.28	16.77

A: Audited
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-Bank Guarantees	-	-	-	150.65	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	65.00	CARE A+ (CE); Stable	1)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)	1)CARE AA- (SO); Stable (05-Dec-16)
2.	Non-fund-based - ST-Working Capital Limits	ST	2.35	CARE A1+ (CE)	1)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)	1)CARE A1+ (SO) (05-Dec-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	150.65	CARE A1+ (CE)	1)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)	1)CARE A1+ (SO) (05-Dec-16)
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)	1)CARE AA- (SO); Stable (05-Dec-16)
5.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB+ / CARE A2	-	-	-	-

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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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.

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