

Birla Cable Limited

October 09, 2017

Ratings

| Facilities | Amount (Rs. crore) | Rating * | Remark |
|----------------------------|--|--|-------------------|
| Long Term Bank Facilities | 55.50 | CARE AA- (SO); Stable [Double A Minus (Structured Obligation)]; Outlook: Stable | Reaffirmed |
| Short Term Bank Facilities | 91.50 | CARE A1+ (SO) [A One Plus (Structured Obligation)] | Reaffirmed |
| Total facilities | 147.00 (Rs. One Hundred Forty-Seven Crore Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale

CARE's ratings on the bank facilities of Birla Cable Limited (BCL) factors in credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by Vindhya Telelinks Limited (VTL, rated CARE AA-/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 key credit risk assessment parameters for guarantor.

Detailed Rationale of Guarantor (VTL)

The reaffirmation of ratings assigned to bank facilities and instruments of Vindhya Telelinks Limited (VTL) continues to derive strength from well established & experienced promoters, moderate operational performance and healthy order book position providing long-term revenue visibility.

The above rating strengths are however partially offset by working capital intensity associated with operations, exposure to volatility of raw material prices, inherent risk associated with large orders and prevalent competition in cable and EPC business.

Ability of VTL to maintain favourable operational performance, timely execution of projects/ orders and any extension of financial support to group/associate companies impacting financial risk profile of the company would be key rating sensitivities.

Detailed description of the key rating drivers of Guarantor (VTL)

Key Rating Strengths

Well established and 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 A2+)]. VTL was established in joint sector between Universal Cables Limited and Madhya Pradesh State Industrial Development Corporation Limited to implement a Project for manufacture of Jelly Filled Telephone Cables (JFTC).

Moderate operational performance

During FY17 VTL reported marginal increase in income from operations. However, the share of revenue from EPC segment increase from 53% in FY16 to 71% in FY17. The company benefitted from order inflow from various SEBs executing system improvement and strengthening of distribution system under Integrated Power Development Scheme and Deendayal Upadhyaya Gramin Jyoti Yojna

Scheme. Further, the share of revenue from domestic market increased to 98% in FY17 as compared to 93% in FY16 and balance being from overseas market.

The company reported dip in PBILDT margins to 13.84% in FY17 from 18.54% in FY16 on account of execution of higher EPC orders as compared to Cable segment orders. Further, the operating margins are relatively low in EPC as compared to Cable segment majorly due to prevalent competition in the industry. Interest coverage ratio of the company marginally improved from 3.51 times in FY16 to 3.96 times in FY17 on account of lower interest and finance expenses.

During Q1FY18 the company reported increase in revenue as compared to Q1FY17 on account of higher contribution in EPC segment. However, PBILDT margins dipped from 13.57% in Q1FY17 to 13.45% in Q1FY18.

Healthy order book position providing long-term revenue visibility

As on August 31, 2017 the total outstanding order book position of the company stood at Rs. 1,847 crore which is around 1.76 times FY17 revenue, thus providing long-term revenue visibility. Out of total order book, Rs. 294.36 crore is from Cable segment and Rs. 1,474.83 crore from EPC segment. Further, out of order book of EPC segment, the major orders are from State Electricity Board (SEBs) amounting Rs. 1,110.01 crore towards strengthening of distribution network.

Moderate financial risk profile

Total Debt of the company reduced to Rs. 275.15 crore at end-FY17 from Rs. 317.04 crore at end-FY16 on account of reduction term loans. Consequently, overall gearing ratio of the company improved from 0.86 times at end-FY16 to 0.63 times at end-FY17. Despite decrease in Gross cash accruals from Rs. 91.27 crore in FY16 to Rs. 77.10 crore in FY17, Total Debt to GCA marginally increased from 3.47 times at end-FY16 to 3.56 times at end-FY17.

Also, VTL continues to extend support to associate & joint venture companies during FY17. The loans guaranteed of Group Company stood at Rs. 179.65 crore as on March 31, 2017 as compared to Rs. 184.50 crore as on March 31, 2016. Consequently, the adjusted overall gearing of the company stood at 1.04 times at end-FY17 as compared to 1.37 times at end-FY16.

Key Rating Weaknesses

Working capital intensive operations

VTL's operations continue to be working capital intensive. The operating cycle of the company increased from 89 days at end-FY16 to 106 days at end-FY17 on account of increase debtor's collection period. The receivables of the company increased from Rs. 349.80 crore at end-FY16 to Rs. 422.32 crore at end-FY17 on account of deferral of payment of few clients.

Inherent risk associated with execution of large orders in EPC segment

Going forward VTL expects to derive major revenue for execution of orders in EPC segment. The orders are from different SEBs. Any delay/deferral of operational expenditure by SEBs might impact the operational performance of the company.

Exposure to volatility of raw material prices

VTL in cable manufacturing segment continues to expose to volatility of raw material prices. Copper, Polyethylene and Optical fibre being key materials consumed in cable segment. The orders under cable segment are generally fixed price, restricting ability of company to pass-on any increase in raw material costs. While bidding for orders the company attempts to capture the anticipated escalation in raw material prices, thus mitigating volatility of prices to an extent.

Prevalent competition in cable and EPC business

Cable business in recent time is experiencing stiff competition in domestic market on account of over capacity. Further, the demand in cable business is majority depend 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 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.

Analytical approach: Standalone

Applicable Criteria

[CARE's criteria on assigning Outlook 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](#)

About the Company

BCL incorporated in 1992, is a joint venture between M.P. Birla Group [Universal Cables (holding 13%) rated CARE A-; Stable/ CARE A2+ and Vindhya Telelinks Ltd. (holding 19.33%) rated CARE AA-/Stable/CAREA1+]. It is engaged in manufacture and marketing of optical fibre cables and other related products viz. Copper cables and specialty cables. The company has a manufacturing plant at Rewa, Madhya Pradesh. The company is currently headed by Mr. Harsh V. Lodha.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income | 255.51 | 212.98 |
| PBILDT | 28.94 | 14.52 |
| PAT | 8.48 | 3.18 |
| Overall gearing (times) | 0.82 | 0.42 |
| Interest coverage (times) | 3.34 | 2.02 |

A: Audited

About the Guarantor: VTL

VTL is into manufacturing of telecom cables (Jelly Filled Telecommunication Cables and Optical Fibre 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 (BSNL, rated CARE AAA (SO)), Mahanagar Telephone Nigam Limited (MTNL, rated CARE AAA (SO)), Indian Railways, Defense (Indian Army), National Thermal Power Corporation Limited (NTPC), Steel Authority of India Limited (SAIL, rated CARE AA+), Bharti Airtel Ltd, Tata Tele Service Limited (rated CARE A/CARE A1+) Reliance Infocom, North Bihar Power Distribution Company Limited etc. The company derived around 71% revenue in FY17 from EPC business, 27% from cable business and balance from others as compared to around 53% revenue in FY16 from EPC business, 46% from cable business and balance from others.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income | 1,000.36 | 1,050.44 |
| PBILDT | 185.46 | 145.38 |
| PAT | 77.35 | 67.24 |
| Overall gearing (times) | 0.86 | 0.63 |
| Interest coverage (times) | 3.51 | 3.96 |

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

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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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 | - | - | - | 40.00 | CARE AA- (SO); Stable |
| Non-fund-based - ST-Working Capital Limits | - | - | - | 2.35 | CARE A1+ (SO) |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 89.15 | CARE A1+ (SO) |
| Fund-based-Long Term | - | - | - | 15.50 | CARE AA- (SO); 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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT-Cash Credit | LT | 40.00 | CARE AA- (SO); Stable | - | 1)CARE AA- (SO); Stable (05-Dec-16) | 1)CARE A+ (SO) (25-Sep-15) | 1)CARE A- (SO) (07-Oct-14) 2)CARE BBB (SO) (14-Apr-14) |
| 2. | Non-fund-based - ST-Working Capital Limits | ST | 2.35 | CARE A1+ (SO) | - | 1)CARE A1+ (SO) (05-Dec-16) | 1)CARE A1 (SO) (25-Sep-15) | 1)CARE A2 (SO) (07-Oct-14) 2)CARE A3 (SO) (14-Apr-14) |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 89.15 | CARE A1+ (SO) | - | 1)CARE A1+ (SO) (05-Dec-16) | 1)CARE A1 (SO) (25-Sep-15) | 1)CARE A2 (SO) (07-Oct-14) 2)CARE A3 (SO) (14-Apr-14) |
| 4. | Fund-based-Long Term | LT | 15.50 | CARE AA- (SO); Stable | - | 1)CARE AA- (SO); Stable (05-Dec-16) | - | - |

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