

Universal Cables Limited

March 18, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	511.87 (enhanced from 297.00)	CARE A; Positive [Single A; Outlook: Positive]	Reaffirmed, Outlook revised to Positive
Short-term Bank Facilities	918.50 (enhanced from 598.50)	CARE A1 [A One]	Reaffirmed
Long/Short term Bank Facilities	14.00 (enhanced from 4.00)	CARE A/CARE A1; Positive [Single A; Outlook: Positive/A One]	Reaffirmed, Outlook revised to Positive
Total	1,444.37 (Rs. One thousand four hundred and forty four crore and thirty seven lakhs only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings for the bank facilities of Universal Cables Limited (UCL) continues to derive strength from the experienced promoters, well-established track record of the company in cables business and the benefitted from technical support from Furukawa Electric Company Limited. The rating strengths further takes into consideration, demonstration of favourable operational performance in FY18 (refers to period April 01, to March 31,) & 9MFY19 (refers to period April 01, to December 31,) translating into comfortable debt coverage indicators 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 the cable and Engineering Procurement Construction (EPC) business.

Ability of UCL to maintain its 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.

Outlook:

CARE has revised the outlook for long term bank facilities of UCL from Stable to Positive. The revision is on account of expected improvement in operational performance of the company amidst healthy order book position as on December 31, 2018 comprising of reputed clientele having a favourable credit risk profile.

Detailed description of the key rating drivers
Key Rating Strengths
Well established and experienced promoters group

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. These businesses are operated through various companies such as Birla Corporation Limited (BCL, rated CARE AA; Stable/CARE A1+), Vindhya Telelinks Limited (VTL, rated CARE AA-; Stable/CARE A1+).

The M.P. Birla Group continues to exhibit financial support to UCL in form of ICDs. The group has ICDs amounting Rs. 93 crore as on March 31, 2018 increased from Rs. 78 crore as on March 31, 2017. The group through extension of financial support funded operational losses of the company and capital expenditure towards enhancing of existing manufacturing capabilities in past.

BCL one of the flagship company of the M. P. Birla group. The company is a multi-location cement manufacturing company with an aggregate capacity of 9.80 mn tonnes p.a. The number of companies in common parlance described as M P. Birla Group of companies is all controlled by their respective Boards of Directors. The shareholders of the respective companies exercise control to the extent of their shareholding.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Well established track record of company in cables business and benefitted from technical support from Furukawa Electric Company Limited

UCL, originally incorporated as Hindustan Woollen Mills in 1945, was promoted by Mr. M. P. Birla and later renamed to its present name in 1961. 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). Mr. H.V. Lodha is an eminent Chartered Accountant and was a member of the Accounting Standards Board of the Institute of Chartered Accountants of India.

In addition to it, UCL benefitted from technological tie-up with Furukawa Electric Company Ltd. (FEC), Japan. The company has installed two Vertical Continuous Vulcanizing (VCV) line with the technology from FEC to meet the demand for EHV cables. The company collaborated with FEC towards transfer of optical fibre technology which was completed by FY 2016.

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.

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 400 kV grade and PVC and Rubber Insulated Power Cables up to 11 kV grade. UCL's products include low voltage, medium voltage and extra high voltage cross linked polyethylene (XLPE) power cables up to 400 kV grade, polyvinyl chloride (PVC) and rubber insulated power cables up to 11 kV grade, control and instrumentation cables up to 1.1 kV for any number of cores/pairs and speciality rubber cables for trailing/flexible standards to suit to customer requirements. This enables the company to cater to a wide range of customer requirements.

Continual demonstration of favourable operational performance in FY18 and 9MFY19 translating into comfortable debt coverage indicators

UCL reported increase in total income from Rs. 823.59 crore in FY17 to Rs. 1,195.51 crore in FY18 on account of execution of orders from different user industries. PBILDT margins of company marginally dipped to 9.70% in FY18 from 10.05% in FY17 on account of increase in sales of MV and LV cables, where margins are relatively lower than EHV cables.

Interest coverage ratio of the company improved from 1.88 times in FY17 to 2.17 times in FY18 on account of higher PBILDT levels. Total Debt to GCA of the company marginally increased from 6.08 times in FY17 to 6.76 times in FY18 on account of increase in working capital bank borrowings.

UCL reported increase in revenue by around 20% to Rs. 1,015.81 crore in 9MFY19 as compared to Rs. 840.77 crore in 9MFY18. As a result, PBLIDT levels increased to Rs. 131.27 crore in 9MFY19 as compared to Rs. 83.15 crore in 9MFY18. Despite increase in interest & finance expenses, the company reported improvement in interest coverage ratio to 2.85 times in 9MFY19 as compared to 2.11 times in 9MFY18.

Going forward the ability of the company to maintain favourable operational performance is the key rating monitorable.

Favourable order book position providing medium-term revenue visibility

UCL has order book (incl. L1 orders) of Rs. 1,366.42 crore as on December 31, 2018 which is around 1.14 times FY18 revenue providing stable revenue visibility. These orders are majorly for power cables from various SEBs and private power companies. The scope of these orders includes manufacturing (as per technical specification), supplying and laying cables.

Key Rating Weaknesses

Working capital intensive operations

UCL's operation continues to remain working capital intensive. The company continues to have higher debtor level as major counter parties are in power industry where realizations are relatively modest. Further, the company is also into EPC business where instead of relying on high interest bearing advance from customers, it avails funding from Banks. The company's working capital cycle improved from 129 days as on March 31, 2017 to 113 days as on March 31, 2018 on account of better realisation of debtors. The EPC/turnkey business has retention money of about 10% to 15%, which is received after the project is commissioned. As per the company, EPC/turnkey project generally takes 12-18 months for the completion and contribution from such projects are expected to increase. The maximum working capital utilisation remains high for 12 months ended September, 2018 stood at 76 %.

The market value of quoted investments of the company stood at Rs. 407.78 crore as on March 31, 2018 (Rs. 263.94 crore as on March 31, 2017) providing liquidity comfort. The quoted investment of the company is majorly in Birla Corporation Ltd., Vindhya Telelinks Ltd. and Birla Cable Ltd.

Exposure to volatility of raw material prices

UCL is in cable manufacturing segment and continues to expose to volatility of raw material prices. Copper 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 any increase in raw material costs. The company has price fluctuation clause to the extent around 67% in copper and 33% in aluminum, thereby mitigating volatility of major raw material prices to a larger extent.

While bidding for orders the company ties up raw material as an attempt to capture the anticipated escalation in raw material prices, thus mitigating volatility of prices to an extent.

Inherent risk associated with execution of large orders in cable segment and prevalent competition in cable industry

UCL continues to derive major revenue from cable business. These orders are from various user industries mainly power sector. Any delay/deferral of operational expenditure by these companies might adversely impact the operational performance and consequently prospects of the company. Further, in the cable industry with the presence of organised and unorganised players the business environment is competitive. However, with company's established position in cables business mitigates it to larger extent.

Liquidity analysis:

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Analytical approach: Standalone

CARE continues to take cognizance of support extended by M.P. Birla group companies to UCL as and when required. The promoters being common continue to provide financial support and technical assistance to UCL.

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

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'. Apart from manufacturing power cables for multifarious applications, UCL undertakes execution of turnkey EPC contracts from various Utilities/Projects in the EHV segment.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	823.59	1,195.51
PBILDT	82.75	115.93
PAT	29.11	41.94
Overall gearing (times)	1.02	1.19
Interest coverage (times)	1.88	2.17

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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****For detailed Rationale Report and subscription information, please contact us at www.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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based - ST-BG/LC	-	-	-	918.50	CARE A1
Non-fund-based - LT/ST-Derivative Limits	-	-	-	14.00	CARE A; Positive / CARE A1
Fund-based - LT-Cash Credit	-	-	-	511.87	CARE A; Positive

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	918.50	CARE A1	1)CARE A1 (12-Apr-18)	1)CARE A2+ (13-Nov-17) 2)CARE A2+ (09-Oct-17)	1)CARE A2+ (20-Jan-17)	1)CARE A2+ (06-Jan-16)
2.	Non-fund-based - LT/ST-Derivative Limits	LT/ST	14.00	CARE A; Positive / CARE A1	1)CARE A; Stable / CARE A1 (12-Apr-18)	1)CARE A-; Positive / CARE A2+ (13-Nov-17) 2)CARE A-; Positive / CARE A2+ (09-Oct-17)	1)CARE A-; Stable / CARE A2+ (20-Jan-17)	1)CARE BBB+ / CARE A2+ (06-Jan-16)
3.	Fund-based - LT-Cash Credit	LT	511.87	CARE A; Positive	1)CARE A; Stable (12-Apr-18)	1)CARE A-; Positive (13-Nov-17) 2)CARE A-; Positive (09-Oct-17)	1)CARE A-; Stable (20-Jan-17)	1)CARE BBB+ (06-Jan-16)

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