Universal Cables Limited

March 23, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	511.87	**CARE A; Positive [Single A; Outlook: Positive]**	**Reaffirmed**
Short-term Bank Facilities	918.50	**CARE A1 [A One]**	**Reaffirmed**
Long/Short term Bank Facilities	14.00	**CARE A; Positive /CARE A1 [Single A; Outlook: Positive/A One]**	**Reaffirmed**
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 the ratings assigned to the' the bank facilities of Universal Cables Limited (UCL) continues to derive strength from the experience and support of resourceful promoters, well-established track record of the company in cables business as well as the technical support from Furukawa Electric Company Limited. The rating strengths further take into consideration continued favourable operational performance in FY19and 9MFY20 translating into comfortable debt coverage indicators and healthy order book position providing medium-term revenue visibility.

The above rating strengths are however partially offset by high 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.

Rating Sensitivities

Positive Factors

- Significant increase in the order book position as well as timely execution of orders on a sustained basis
- Improvement in the operating cycle to less than 100 days on a consistent basis

Negative Factors

- Deterioration in average capacity utilization below 30% on a continued basis impacting the financial risk profile
- Increase in overall gearing beyond 1.5x
- Deterioration in operating cycle beyond 160 days on a continued basis

Outlook: Positive

The 'Positive' outlook was reaffirmed on account of expected improvement in cash flow from operations on the back of improvement in operational performance of the company as well as improvement in operating cycle. The operational performance is expected to improve further amidst healthy order book position as on December 31, 2019 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 A+; Stable/CARE A1+).

The M.P. Birla Group continues to exhibit financial support to UCL in form of inter-corporate deposits full form (ICDs). The group has ICDs amounting Rs. 123 crore as on March 31, 2019 increased from Rs. 93 crore as on March 31, 2018. In the past, the group through extension of financial support funded operational losses of the company and capital expenditure towards enhancing of existing manufacturing capabilities.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Well established track record of company in cables business and continual technical support from Furukawa Electric Company Limited: 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 400 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.

In addition to it, UCL has 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. 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.

Continual demonstration of favourable operational performance in FY19 and 9MFY20 translating into comfortable debt coverage indicators: UCL reported increase in total income from 1,195.51 crore in FY18 to Rs. 1,426.81 crore in FY19 on account of execution of orders from different user industries. PBILDT margins of company significantly improved to 12.98% in FY19 from 9.70% in FY18 on account of increase of around 44% in sales of EHV cables, where margins are relatively higher than other cables.

Interest coverage ratio of the company improved from 2.17 times in FY17 to 2.98 times in FY19 on account of higher PBILDT levels. Total Debt to GCA of the company also improved from 6.76 times in FY18 to 5.27 times in FY19 on account of healthy cash accruals.

UCL reported increase in revenue by around 19% to Rs. 1,211 crore in 9MFY20 as compared to Rs. 1,015.61 crore in 9MFY19. As a result, PBLIDT levels increased to Rs. 139.66 crore in 9MFY20 as compared to Rs. 131.29 crore in 9MFY18. However, the interest coverage ratio decreased slightly from 2.85 times in 9MFY19 to 2.50 times in 9MFY20 owing to increase in working capital borrowings .During 9MFY20, the company had positive cash flow from operations and is expected to improve further.

Favourable order book position providing medium-term revenue visibility: UCL has an outstanding order book of Rs. 1,153.97 crore as on December 31, 2019 and orders worth Rs.398.05 crore are in pipeline which are L1 orders, amounting to an order book of Rs.1,552.02 crore which is around 1.09 times of FY19 revenue providing stable revenue visibility in the medium-term. These orders are majorly for EHV and MV power cables from various private power companies, railways as well as SEBs. The company is a dominant player in the EHV segment and undertakes EPC (turnkey) contracts in this segment apart from supplying of cables. The scope of these contracts includes manufacturing (as per technical specification), supplying and laying, installation and commissioning of cables.

Key Rating Weaknesses

Working capital intensive operations: UCL's operations continue to remain working capital intensive. The company continues to have higher debtor level as the share of the EPC business has grown over the last three years, wherein the payment terms are longer and milestones based. The credit period extended by the company to the cable (pure supply) customers is generally between 60-75 days. Further, the company is also into EPC business where instead of relying on high interest bearing advance from customers, it avails funding from banks. Further, the payment cycle in case of EPC orders is between 150-195 days. The company's working capital cycle deteriorated from 112 days as on March 31, 2018 to 139 days as on March 31, 2019 on account of increase in the collection period. The EPC/turnkey business has retention money of about 10% to 15%, which is received after the project is commissioned. Further, EPC/turnkey project generally takes 12-18 months for the completion and has progressive payment schedule. The average working capital utilisation remained high for 12 months ended January 2020 at 87%.

Exposure to volatility of raw material prices: UCL is in cable manufacturing segment and continues to be exposed to volatility of raw material prices. Copper, Aluminium 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.

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. Further, for EPC orders, the company has price escalation clauses for large and longer orders. The company also enters into forward contracts for hedging foreign exchange exposures against imports.

Inherent risk associated with execution of large orders in EPC 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, the company's established position in cables business mitigates it to an extent.

Prospects

The prospects of the company largely depend on the power sector. Majority of the orders are from power transmission companies. The demand for power would continue to increase due to the rising population and the per capita consumption linked with the growing prosperity and better living standards.

There has been consistent increase in transmission capacity in the country over the decades with length of transmission lines increasing from 1,70,800 ckm in 1991 to 4,15,517 ckm as on June 30, 2019. The Government has launched various projects to strengthen the existing transmission network and increase inter-regional transfer capacity. With significant amount of power capacity addition of around 200 GW (including 175 GW RE) in the next four to five years, India is expected to be a power surplus nation which would also require cross border transmission assets. The expected increase in transmission lines would lead to increased demand of power cables and UCL being an experienced player in the cable industry for over more than five decades with proven product quality will be able to cater to the growing demand in the sector.

Liquidity: Adequate

Liquidity is marked by more than adequate accruals against scheduled repayment obligations of Rs.21.42 crore in FY20 and Rs.49.24 crore in FY21. The company also has the group support in the form of unsecured loans being infused in FY19 and will be extended in the future, if required. The unutilized bank limits (to the extent of 14%) also provide support to the liquidity. As on December 31, 2019, the company had free cash balances to the extent of Rs. 5.31 crore.

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 and Credit Watch to Credit Ratings
CARE's policy on Default Recognition
Rating Methodology: Consolidation & Factoring Linkages in Rating
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology-Construction Sector

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 a full-fledged EPC Division to execute Turnkey Contracts for various Utilities/Projects in the EHV segment.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1195.51	1426.81
PBILDT	115.93	185.17
PAT	41.94	69.00
Overall gearing (times)	1.22	1.29
Interest coverage (times)	2.17	2.98

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
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 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.	Non-fund-based - ST-BG/LC	ST	918.50	CARE A1	-	1)CARE A1 (18-Mar-19) 2)CARE A1 (12-Apr-18)	1)CARE A2+ (13-Nov-17) 2)CARE A2+ (09-Oct-17)	1)CARE A2+ (20-Jan-17)
2.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	14.00	CARE A; Positive / CARE A1	-	1)CARE A; Positive / CARE A1 (18-Mar-19) 2)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)
3.	Fund-based - LT-Cash Credit	LT	511.87	CARE A; Positive	-	1)CARE A; Positive (18-Mar-19) 2)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)

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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