Universal Cables Limited

November 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities- Cash Credit	500.00 (reduced from 511.87)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed and Outlook revised from Positive to Stable
Long term Bank Facilities- Term Loan	24.23		Assigned
Long term Bank Facilities- Capex Letter of Credit	13.50		
Short term Bank Facilities – Bank Guarantee/Letter of Credit	1,105.00 (enhanced from 918.50)	CARE A1 (A One)	Reaffirmed
Long term/Short term Bank Facilities – Derivative Limits	26.00 (enhanced from 14.00)	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/A One)	Reaffirmed and Outlook revised from Positive to Stable
Total Facilities	1,668.73 (Rs. One thousand six hundred sixty eight crore and seventy three lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in outlook factors in the lower than expected improvement in the operational as well as financial performance and further deterioration in the operating cycle in FY20. The performance continued to deteriorate in H1FY21 as the operations of the company were adversely impacted by the lockdown and restrictions imposed by the Government to control the Covid-19 pandemic. However, it is expected to improve in H2FY21 with the withdrawal of the lockdown across the country and normalization of the operations coupled with upsurge in level of economic activity.

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 the company's 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 scale of operations*
- *Significant increase in the order book position as well as timely execution of orders on a sustained basis*
- *Improvement in the operating cycleon a consistent basis*

Negative Factors:

- *Deterioration in operational performance 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*

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+).

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

The M.P. Birla Group continues to exhibit financial support to UCL in the form of ICDs. The group has ICDs amounting Rs. 123 crore as on March 31, 2020. The group has further infused Rs.25 crore as unsecured loans/ICDs in August 2020. In the past, the group has, through extension of financial support, funded operational losses of the company and capital expenditure towards enhancing of existing manufacturing capabilities.

Well established track record of company in cables business and continual technical support from the group: 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 had 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.

Favourable order book position providing medium-term revenue visibility:UCL has an outstanding order book of Rs. 1,053.79 crore as on September 30, 2020 and orders worth Rs.322.23crore are in pipeline, amounting to an order book of Rs.1,376.02 crorewhich provides stable revenue visibility. These orders are majorly for EHV and MV power cables from various private power companies, railways as well as SEBs. The outstanding order book comprises of export orders worth Rs. 113.49 crore.
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.

Continual demonstration of favourable operational performance in FY20; albeit adversely impacted due to Covid-19 in H1FY21: UCL reported increase of around 11% in total income from 1,426.81crore in FY19 to Rs. 1,581.88 crore in FY20 on account of execution of orders from different user industries as well as increase in the revenue in both EHV and HV/MV segments. PBILDT margin of the company however declined to 11.31% in FY20 from 12.98% in FY19 on account of lower EPC revenue (25% of total revenue in FY20) as compared to the previous year (37% of total revenue in FY19). The EPC revenue was lower in FY20 mainly due to lockdown imposed in Q4FY20 to control the outbreak of Covid-19. On account of this, the revenue growth in FY20 was lower than that of envisaged levels.
Interest coverage ratio of the company decreased from 2.98 times in FY19 to 2.32 times in FY20 on account of higher interest cost. Total Debt to GCA of the company deteriorated from 5.38 times in FY19 to 8.00 times in FY20 on account of increase in debt due to increase in working capital borrowings as well as suppliers' credit.
UCL reported substantial decline in revenue to Rs. 497.47 crore in H1FY21 as compared to Rs.812.52 crore in H1FY20. As a result, PBLIDT levels decreased to Rs. 37.51 crore in H1FY21 as compared to Rs. 95.01crore in H1FY20. The revenue as well as profitability declined substantially during H1FY21 mainly due to slower execution of projects led by lockdown imposed restrictions as well as lower sales realizations in the cables segments. The interest coverage ratio decreased from 2.74 times in H1FY20 to 1.19 times in H1FY21 owing to decrease in profitability. The company has majority of its turnkey projects in the southern part of the country where the lockdown was longer than the other parts, which led to slower execution of EPC projects and thereby impacting the revenue from this segment. However, the outstanding receivables' position has improved to Rs.658 crore as on September 30, 2020 from Rs.806 crore as on March 31, 2020 which has resulted in increase in cashflow from operations in H1FY21.
The H1FY21 performance was impacted mainly due to the ongoing lockdown which resulted in supply chain disruption and temporary closure of operations. However, with the withdrawal of lockdown in the country, the operations have started to normalize and the level of economic activity has gone up. The second half of the year is expected to be better in terms of revenue and profitability.

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 major counter parties are in power industry where realizations are relatively modest. The credit period extended by the company to the cable (pure supply) customers is generally between 60-75 days. 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 141 days as on March 31, 2019 to 166 days as on March 31, 2020 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. As per the company, EPC/turnkey project generally takes 12-18 months for the completion. The average working capital utilisation remains high for 12 months ended September 2020 at 89%.

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 materials 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 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 (around 75%). 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 this to a large extent.

Industry Outlook
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. This would require more power to be delivered to homes, offices, institutions, shopping centers and hospitals giving a boost to the demand for power cables for transmission and distribution of electricity.
The transmission line length (at 220 kV and above voltages) in the country stood at 425,770 ckt. km as of May 2020, growing at a CAGR of 6.5 per cent between 2013-14 and 2019-20. The immediate challenge to all sectors including transmission is posed by the Covid-19 crisis. Owing to the lockdown, most under-construction transmission line and substation projects have come to a standstill. Several private transmission project developers have evoked the force majeure clause in their contracts and intimated the same to long-term transmission customers. Transcos are expected to prioritise the completion of works in progress as the lockdown is lifted. However, the mobilisation of men and materials is expected to take some time.
The capacity addition and capex in the transmission segment may suffer in the short term but the long-term drivers remain intact. As per the National Infrastructure Pipeline, a capex of over Rs 3,040 billion is expected in the transmission segment between 2020 and 2025.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 adequate accruals against scheduled repayment obligations in FY21 and FY22. The company also has the group support in the form of unsecured loans being infused in FY21 to the extent of Rs.25 crore and will be extended in the future, if required.The company has also enhanced their fund based limits by Rs.100 crore to optimize and manage the working capital in a more efficient manner. The company has reduced the outstanding receivables' amount as on September 30, 2020 which has resulted in increase in cash flow from operations.

Analytical approach: Standalone
CARE continues to take cognizance of the 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 methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Criteria on assigning outlook and credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities

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 dedicated EPC teamto execute Turnkey Contracts for various Utilities/Projects in the EHV segment.

Brief Financials (Rs. crore)	FY20 (A)	FY19 (A)
Total operating income	1,581.88	1,426.81
PBILDT	178.89	185.17
PAT	64.55	69.00
Overall gearing (times)	1.45	1.30
Interest coverage (times)	2.32	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	-	-	-	1105.00	CARE A1
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	26.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE A; Stable
Non-fund-based - LT-Letter of credit	-	-	-	13.50	CARE A; Stable
Term Loan-Long Term	-	-	March 2024	24.23	CARE A; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	1105.00	CARE A1	-	1)CARE A1 (23-Mar-20)	1)CARE A1 (18-Mar-19) 2)CARE A1 (12-Apr-18)	1)CARE A2+ (13-Nov-17) 2)CARE A2+ (09-Oct-17)
2.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	26.00	CARE A; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (23-Mar-20)	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)
3.	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Positive (23-Mar-20)	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)
4.	Non-fund-based - LT-Letter of credit	LT	13.50	CARE A; Stable	-	-	-	-
5.	Term Loan-Long Term	LT	24.23	CARE A; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Sharmila Jain
Contact no. - +91-22-6754 3638
Email ID- sharmila.jain@careratings.com

RelationshipContact
Saikat Roy
Contact no. - +91-22-6754 3404
Email ID: saikat.roy@careratings.com

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