Vindhya Telelinks Limited

January 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	1,107.50	CARE A+; Stable (A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short term Bank Facilities	2,090.50	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	3,198.00 (Rs. Three thousand one hundred and ninety eight crore only)		
Non-Convertible Debentures Issue	100.00 (Rs. One hundred crore only)	CARE A+; Stable (A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

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 moderation 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.

Rating Sensitivities

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.*
- *Infusion of funds in the form of equity resulting in improvement in the overall gearing ratio*

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

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.

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

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
Moderation 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: 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
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 at around 87% for 12 months ended September 30, 2019.

Analytical approach: Standalone
However, CARE has also considered the corporate guarantee extended by VTL to its group company, Birla Cable Limited while assessing 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

About the Company
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

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	ISIN	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	-	-	-	-	2090.50	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	910.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	December 29, 2017	9.55%-9.75%	December, 2024	197.50	CARE A+; Stable
Debentures-Non Convertible Debentures	INE707A08017 INE707A08025 INE707A08033 INE707A08041	February 10, 2017	8.50% 8.40% 8.40% 8.40%	February 15, 2022 October 23, 2020 October 25, 2021 October 25, 2022	50.00 17.00 17.00 16.00	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 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	2090.50	CARE A1+	-	1)CARE A1+ (04-Dec-18) 2)CARE A1+ (10-Oct-18)	1)CARE A1+ (13-Nov-17) 2)CARE A1+ (09-Oct-17)	1)CARE A1+ (01-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	910.00	CARE A+; Stable	-	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)
3.	Fund-based - LT-Term Loan	LT	197.50	CARE A+; Stable	-	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)
4.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Stable	-	1)CARE AA-; Stable (04-Dec-18) 2)CARE AA-; Stable (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)

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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