

Vindhya Telelinks Limited

October 10, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term bank limits	1,107.50 (enhanced from 502.50)	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Short-term bank limits	2,090.00 (enhanced from 1,333.08)	CARE A1+ [A One Plus]	Reaffirmed
Total facilities	3,197.50 (Rupees Three Thousand One Hundred ninety seven crore and fifty lakhs only)		
Non-Convertible Debentures issue	100.00	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Total	100.00 (Rupees One Hundred crore only)		

Detailed Rationale

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

The above rating strengths are however, partially offset by inherent risk associated with large orders, working capital intensity associated with operations and prevalent competition in Engineering Procurement Construction (EPC) business.

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.

Detailed description of the key rating drivers

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; Stable/ CARE A1)]. 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).

Continual demonstration of favourable operational performance

During FY18 (refers to period April 01, to March 31,) VTL reported significant increase in revenue from operations as compared to FY17 on account of higher contribution from Cables and EPC segment. The company benefited from higher demand from OFC users resulting in higher utilisation of capacity in FY18. Also, the revenue from EPC segment increased significantly in FY18 to Rs. 944 crore from Rs. 776 crore in FY17 on account of execution of orders from various SEBs executing system improvement and strengthening of distribution system under Integrated Power Development Scheme and Deendayal Upadhyaya Gramin Jyoti Yojna Scheme.

The company reported marginal dip in PBILDT margins to 13.86% in FY17 from 14.47% 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.

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

Interest coverage ratio of the company marginally improved from 3.61 times in FY17 to 3.97 times in FY18 on account of higher PBILDT levels.

Continual long-term revenue visibility by virtue of healthy order book position

VTL outstanding order book position as on May 01, 2018 stood at Rs. 4,767.94 crore which is around 3.52 times revenue of FY18, providing a long term revenue visibility. The company also has orders worth Rs. 1,250.47 crore where VTL is L1 and work order is yet to be announced.

Out of the outstanding order book of Rs. 4,767.94 crore, the major orders under EPC segment is Rs. 2,011.24 crore from various SEBs under Integrated Power Development Scheme & Deendayal Upadhyaya Gramin Jyoti Yojna Scheme and another major order is from BSNL worth Rs. 1,816.72 crore under National Optical Fibre Network (NOFN). These orders are to be executed in two years.

Moderate financial risk profile and debt coverage indicators

Interest coverage ratio of the company though improved from 3.61 times in FY17 to 3.97 times in FY18 on account of higher PBILDT levels. Despite increase in Gross cash accruals from Rs. 74.59 crore in FY17 to Rs. 98.50 crore in FY18, Total Debt to GCA increased from 4.19 times in FY17 to 5.19 times in FY18.

Total Debt of the company increased from Rs. 312.52 crore (considering advance from customers as debt) to Rs. 511 crore as on March 31, 2018 on account of increase in working capital borrowing (bank facilities and commercial paper). Consequently, overall gearing ratio of the company increased from 0.71 times as on March 31, 2017 to 0.97 times as on March 31, 2018.

Also, VTL continues to extend support to associate & joint venture companies during FY18. The loans guaranteed of Group Company stood at Rs. 179.65 crore as on March 31, 2018 as against the same amount as on March 31, 2017. Consequently, the adjusted overall gearing of the company stood at 1.31 times as on March 31, 2018 as compared to 1.11 times as on March 31, 2017.

Key Rating Weaknesses

Working capital intensive operations

VTL average utilisation of fund based working capital is moderate. The current ratio of the company stood at 1.44 times as on March 31, 2018. The operating cycle of the company increased from 134 days at end-FY17 to 156 days at end-FY18 on account of increase in debtor's collection period (incl. unbilled revenue). The receivables of the company increased from Rs. 465.20 crore at end-FY17 to Rs. 721.41 crore at end-FY18 on account of non-completion of order related milestones of few clients in EPC segment (majorly SEBs). Also, the unbilled revenue increased from Rs. 76.90 crore at end-FY17 to Rs. 125.10 crore at end-FY18 due to non-achievability of milestones in few orders. As on June 30, 2018 the receivables of the company reduced to Rs. 413.47 crore. The average maximum working capital utilization for eleven months ended May, 2018 stood at 80%.

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. The orders are from different SEBs. Any delay/deferral of operational expenditure by SEBs might impact the operational performance of the company.

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.

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

VTL is into manufacturing of telecom cables (Jelly Filled Telecommunication Cables and Optical Fibre Cables) and 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, Bharti Airtel Ltd, Reliance Infocom Ltd. etc.

Brief Financials- (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,015.99	1,352.72
PBILDT	146.97	187.48
PAT	65.64	83.33
Overall gearing (times)	0.71	0.97
Interest coverage (times)	3.61	3.97

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	-	-	-	1010.00	CARE AA-; Stable
Fund-based - LT-Term Loan	December 29, 2017	9.55	December, 2024	97.50	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	2090.00	CARE A1+
Debentures-Non Convertible Debentures	February 10, 2017	8.50	October, 2022	100.00	CARE AA-; 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 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	2090.00	CARE A1+	-	1)CARE A1+ (13-Nov-17) 2)CARE A1+ (09-Oct-17)	1)CARE A1+ (01-Dec-16)	1)CARE A1 (25-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	1010.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)	1)CARE A+ (25-Sep-15)
3.	Fund-based - LT-Term Loan	LT	97.50	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)	1)CARE A+ (25-Sep-15)
4.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)	-

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