Vindhya Telelinks Limited

December 04, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term bank limits	1,107.50	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	Reaffirmed
Short-term bank limits	2,090.50 (enhanced from 2,090.00)	**CARE A1+ [A One Plus]**	Reaffirmed
Total facilities	**3,198.00 (Rupees Three Thousand One Hundred ninety eight crore 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. 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.

---

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

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 accurals 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.

Liquidity position:

Interest coverage ratio of the company improved from 3.61 times in FY17 to 3.97 times in FY18 on account of higher PBILDT levels. Gross cash accurals improved from Rs. 74.59 crore in FY17 to Rs. 98.50 crore in FY18 on account of better realizations from cable segment. Further, GCA of Rs. 96.94 core in H1FY19 provides comfortable support towards debt principal repayment of around Rs. 11. 48 crore in FY19. The company has unutilized fund based limits of around 20% of sanctioned fund based limits which provides additional liquidity comfort.

Analytical approach: Standalone. CARE considered debt position of VTL's subsidiary Birla Cable Limited.

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.*

Analyst Contact:
Name: Hitesh M Avachat
Tel: 022-67543510
Email: hitesh.avachat@careratings.com

****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.

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	-	-	-	2090.50	CARE A1+
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
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	2090.50	CARE A1+	1)CARE A1+ (10-Oct-18)	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 (10-Oct-18)	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 (10-Oct-18)	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 (10-Oct-18)	1)CARE AA-; Stable (13-Nov-17) 2)CARE AA-; Stable (09-Oct-17)	1)CARE AA-; Stable (01-Dec-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691