

Rating Advisory

February 07, 2020| Mumbai

Advisory as on February 07, 2020

This rating advisory is provided in relation to the rating of Universal Cables Limited.

CRISIL vide its publication dated January 14, 2020 highlighted the aspect of non-co-operation by Universal Cables Limited.

Universal Cables Limited has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

Rating Rationale

February 22, 2019 | Mumbai

Universal Cables Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.1444.37 Crore
Long Term Rating	CRISIL A/Positive
Short Term Rating	CRISIL A1

Rs.100 Crore Commercial Paper	CRISIL A1
-------------------------------	-----------

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities and commercial paper of Universal Cables Limited (UCL; part of the MP Birla group) continue to reflect the strong technical and financial support UCL enjoys from the MP Birla group; established track record in the cables business backed by strong market presence in the extra-high voltage (EHV) cables segment; and high medium-term revenue visibility. These strengths are partially offset by working capital-intensive operations, moderate interest coverage ratio, and susceptibility to changes in government policy.

CRISIL had on January 4th 2019, revised the outlook to 'Positive' from 'Stable' while reaffirming the ratings at 'CRISIL A/CRISIL A1' on the bank facilities of UCL.

Analytical Approach

To arrive at the ratings, CRISIL has factored in support from the MP Birla group, as it has common promoters and extends financial support when needed. Furthermore, the company is critical to the group as it is one of the largest players in the EHV cables industry and has a strong market position in the electrical cables segment.

Key Rating Drivers & Detailed Description

Strengths

*** Technical and financial support from the MP Birla group:**

The group manufactures cement, power cables, and optical fibre cables; and undertakes EPC contracts in the transmission/telecom industry. It holds 62% stake in UCL. From 2012-15, when the power industry was facing headwinds and UCL incurred losses, the group funded the company's losses and incremental working capital requirement. It had extended inter corporate deposits (ICDs) of Rs 175 crore as on March 31, 2015. With improvement in industry scenario and in UCL's performance, ICDs declined to Rs 78 crore as on March 31, 2017. However, they increased in fiscal 2018 to Rs 93 crore to fund incremental working capital requirement. The company has also benefitted from the technical support the group has provided to it over the years. The rating centrally factors in the timely support from the MP Birla group, which is likely to continue over the medium term. More-than-expected delay or shortfall in support will remain a key sensitivity factor.

*** Established track record in cable manufacturing**

UCL has been manufacturing power cables and capacitors for five decades. It manufactures power cables for all major segments such as EHV, low-voltage cable, medium voltage cables, and rubber cables. The company is an approved cable vendor for major state electricity boards and also has presence in Bangladesh and Mauritius. It is a dominant player in the EHV segment and has also entered turnkey contracts from pure-play supply of EHV which strengthens its market position.

*** Strong revenue visibility backed by healthy orders**

Revenue increased 45% in fiscal 2018 to Rs 1,186.4 crore. Sales were Rs 639.2 crore in the first-half of fiscal 2019, supported by change in government policy regarding power distribution, smart city projects, and underground cable lines in metro cities. Turnover growth is expected to continue over the medium term with healthy orders of Rs 1,069 crore.

*** Comfortable financial risk profile**

Networth was large at Rs 336 crore and comfortable gearing of 1.2 times, as on March 31, 2018. The company brought in equity of Rs 57.00 crore in fiscal 2016 to support working capital requirement. Further, though interest coverage was moderate at 2.0 times as on March 31, 2018, CRISIL expects it to improve to 2.2-2.4 times in near term due to revenue growth and improvement of profitability.

Weaknesses

*** Working capital-intensive operations**

Gross current assets were 231 days as on March 31, 2018, because of stretched receivables of 161 days. This is because majority of clients (largely state or Central government entities) receive credit of 90 days, and payments are stretched further. The company also maintains inventory of 60 days (30-day raw material and the rest finished goods) and some work-in-progress for EPC projects. Though UCL gets supplier credit (104 days as on March 31, 2018) this is not sufficient to meet incremental working capital requirement. Cash flow was negative in four of the past five fiscals, leading to dependence on working capital debt.

*** Moderate debt protection metrics**

Interest coverage ratio was moderate at 2.0 times in fiscal 2018 because of working capital debt, interest-bearing corporate borrowings, bank charges related to non-fund-based facilities, and moderate profitability. Ratio is expected to improve with better revenue and profitability. Net cash accrual to total debt ratio was comfortable at 0.16 time in fiscal 2018.

Liquidity

Liquidity is adequate, reflected in moderate bank limit utilisation of 69% for the past 8 months ended November 2018. Cash accrual of Rs 65-75 crore will be sufficient to repay term debt of Rs 20-30 crore annually in fiscals 2019 and 2020. Current ratio was comfortable at 1.3 times as on March 31, 2018. Unsecured loans from the group (Rs 93 crore as on March 31, 2018, against 78 crore in the previous year) also support liquidity.

Outlook: Positive

CRISIL believes UCL will continue to benefit from its strong order book, established presence, improving financial risk profile, and support from the MP Birla group.

Upgrade scenario

- * Significant growth in revenue profile while sustaining operating margin
- * Improvement in financial risk profile with reduced dependence on outside borrowings
- * Any upward revision in group ratings

Downside scenario

- * Steep decline in revenue and operating margin
- * Sizeable debt-funded capex weakening credit metrics (on net basis)
- * Increase in working capital requirement affecting liquidity
- * Any downward revision in group ratings.

CRISIL believes UCL will continue to benefit from its strong order book, established presence, improving financial risk profile, and support from the MP Birla group.

About the Company

Established in 1962, UCL manufactures power cables and capacitors for the power industry; and rubber cables for original equipment manufacturers and other industries such as Railways, steel plants, petrochemical plants, cement plants, oil rig manufacturers, ship building, and mining. Power cables are sold under the UNISTAR brand. The company also has a technical collaboration with Furukawa Electric Company Ltd, Japan, in the EHV cable sector and adopts the vertical continuous vulcanisation and pressurised liquid salt bath curing technologies to manufacture power and rubber cables, respectively. UCL has two plants, one each in Satna, Madhya Pradesh; and Goa. It is listed on the Bombay Stock Exchange.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs Cr.	1186.4	816.1
Profit After Tax (PAT)	Rs Cr.	41.9	29.1
PAT Margins	%	3.5	3.6
Adjusted debt/adjusted network	Times	1.2	1.15
Interest coverage	Times	2.0	1.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	780	CRISIL A1
NA	Capex Letter of Credit	NA	NA	NA	13.5	CRISIL A1
NA	Cash Credit	NA	NA	NA	400	CRISIL A/Positive
NA	Foreign Exchange Forward	NA	NA	NA	14	CRISIL A1
NA	Inland/Import Letter of Credit	NA	NA	NA	125	CRISIL A1
NA	Long Term Loan	NA	NA	31/12/20	111.87	CRISIL A/Positive
NA	Commercial Paper	NA	NA	7-365 days	100	CRISIL A1

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	100.00	CRISIL A1	04-01-19	CRISIL A1	06-03-18	CRISIL A1	30-12-17	CRISIL A1		--	--
						27-02-18	CRISIL A1					
						08-01-18	CRISIL A1					
Fund-based Bank Facilities	LT/ST	525.87	CRISIL A/Positive/CRISIL A1	04-01-19	CRISIL A/Positive/CRISIL A1	06-03-18	CRISIL A/Stable/CRISIL A1		--		--	--
						27-02-18	CRISIL A/Stable/CRISIL A1					
Non Fund-based Bank Facilities	LT/ST	918.50	CRISIL A1	04-01-19	CRISIL A1	06-03-18	CRISIL A1		--		--	--
						27-02-18	CRISIL A1					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	780	CRISIL A1	Bank Guarantee	722	CRISIL A1
Capex Letter of Credit	13.5	CRISIL A1	Capex Letter of Credit	8.5	CRISIL A1
Cash Credit	400	CRISIL A/Positive	Cash Credit	392.87	CRISIL A/Positive
Foreign Exchange Forward	14	CRISIL A1	Foreign Exchange Forward	4	CRISIL A1
Inland/Import Letter of Credit	125	CRISIL A1	Inland/Import Letter of Credit	230	CRISIL A1
Long Term Loan	111.87	CRISIL A/Positive	Long Term Loan	87	CRISIL A/Positive
Total	1444.37	--	Total	1444.37	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Group Support](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naureen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naureen.ahmed@crisil.com</p> <p>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crisil.com</p>	<p>Nitin Kansal Director - CRISIL Ratings CRISIL Limited D: +91 124 672 2154 nitin.kansal@crisil.com</p> <p>Himank Sharma Associate Director - CRISIL Ratings CRISIL Limited D: +91 124 672 2152 Himank.Sharma@crisil.com</p> <p>Ojaswini Gupta Rating Analyst - CRISIL Ratings CRISIL Limited D: +91 124 672 2178 Ojaswini.Gupta@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities

or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL