

Rating Advisory January 14, 2020 | Mumbai

Universal Cables Limited

Advisory as on January 14, 2020

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

The key rating sensitivity factors for the rating include:

- Sales and operating margin
- Timely realisation of receivables
- Debt-funded capex over the medium term

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Universal Cables Limited (UCL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If UCL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

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.

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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
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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

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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:

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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

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		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](#)

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