Universal Cables Limited
November 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	527.43 (Reduced from 537.73)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	18.00 (Reduced from 26.00)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Short Term Bank Facilities	1,105.00	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**1,650.43 (Rs. One Thousand Six Hundred Fifty Crore and Forty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Universal Cables Limited (UCL) continues to derive strength from the experienced and resourceful promoters with demonstrated funding support to the company, its well-established track record in cables business supported by technical collaboration with Furukawa Electric Company Limited (FECL), Japan. The ratings also factor in the company's adequate order book position providing medium-term revenue visibility and improvement in overall operational performance in Q1FY22, following moderation in FY21 amidst covid-19 induced disruption and expectation of sustenance of improvement in operating profile, going forward, on the back of improved infrastructural spending. The rating strengths however remain partially offset by modest financial risk profile, inherently working capital intensive nature of operations, risks associated with the fluctuation in raw material prices and prevalent competition in the cable and Engineering Procurement Construction (EPC) businesses.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- Increase in total operating income over Rs.2000 Cr with improvement in PBILDT margin to than 12% and ROCE above 15% on sustained basis
- Improvement in overall gearing below unity and total debt/PBILDT below 3 times
- Improvement in the operating cycle to less than 120 days on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade

- Decline in profitability margins marked by PBILDT margin of less than 8% or ROCE below 10%
- Increase in overall gearing beyond 1.5x
- Operating cycle remaining elongated or deteriorating beyond 180 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group with demonstrated funding support: UCL 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, power capacitors and telecom cables. Besides UCL, these businesses are operated through various companies such as Birla Corporation Limited (BCL, rated CARE AA; Stable/CARE A1+) and Vindhya Telelinks Limited (VTL, rated CARE A+; Stable/CARE A1+). The M.P. Birla Group continues to exhibit financial support to UCL in the form of ICDs which stood at Rs. 148 crores as on March 31, 2021. In the past, the group has, through extension of financial support, funded capital expenditure towards enhancing of existing manufacturing capabilitie and working capital requirements of the company, as and when required.

Well established track record in cables business supported by technical collaborations: The company has an established track record of over five decades in the power cable business. The day-to-day operations of the company are managed by a team of experienced and qualified personnel having significant experience in cable industry headed by Mr. H.V. Lodha (Chairman). UCL's cable division has a very wide range of products including Low Voltage (LV), Medium Voltage (MV) and Extra High Voltage (EHV) Power Cables up to 500 kV grade and PVC and Rubber Insulated Power Cables up to 11 kV grade. This enables the company to cater to a wide range of customer requirements. Furthermore, UCL has technological tie-up with Furukawa Electric

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

Company Ltd. (FEC), Japan. The company has installed two Vertical Continuous Vulcanizing (VCV) line with the technology from FEC to meet the demand for EHV cables. UCL has also tied-up with Viscas Corporation, Japan (Power Cable Alliance of Furukawa & Fujikura) for sourcing new generation cable jointing accessories for 220 kV and above.

Adequate order book position providing medium-term revenue visibility: UCL has an outstanding order book of Rs. 1381 crore as on August 31, 2021 and orders worth Rs. 485 crores are in pipeline (which are under negotiation stage after being preferred as L-1) which provides sufficient medium-term revenue visibility. These orders are majorly for EHV and MV power cables from various private power companies, railways as well as state utilities. The company is a dominant player in the EHV segment and undertakes EPC (turnkey) contracts in this segment apart from supplying of cables. The scope of these contracts includes manufacturing (as per technical specification), supplying and laying, installation and commissioning of cables.

Turnaround in operational performance following moderation in FY21: UCL reported decline of around 18% in its total operating income from Rs. 1581.88 crore in FY20 to Rs. 1293 crore in FY21 mainly due covid-19 led disruptions and overall economic slowdown. Since, the operations of the company are largely reliant on growth in infrastructure spending which remained subdued during FY21, the revenue profile of the company was impacted significantly. During FY21, revenue share of EHV cables of the company, which garners better operating margin than other segments, declined significantly due to subdued execution of EPC orders during H1FY21 owing to pandemic induced lockdowns. PBILDT margins of the company thus declined considerably by 333bps to 7.98% in FY21 (PY: 11.31%). Further, a steep rise in commodity prices such as copper, aluminum, etc. in H2FY21 coupled with higher quantum of fixed price contracts, further impacted the profitability. However, in Q1FY22, which was also disruptive to certain extent due to second wave of covid-19, UCL witnessed rebound with YoY growth of around 36% in total operating income mainly owing to low base effect. During Q1FY22, PBILDT margin improved to 12% as against 7% and 8% in Q1FY21 and Q4FY21 respectively due to better management of fluctuations in raw material prices through price variation clauses and simultaneous booking of raw materials. Going forward, operating margin of the company is expected to remain stable in the range of 9-12% with enhanced focus on hedging as the company is prioritizing orders with price escalation clause and for orders where escalation clause is not present, it is hedging through procuring raw material in advance at current market price and negotiating the contract price accordingly. Accordingly, 80% of order book stands hedged in current financial year.

Key Rating Weaknesses

Leveraged albeit improving capital structure and moderate debt coverage indicators: Total debt of the company reduced marginally from Rs. 627.12 crore as on March 31, 2020 to Rs. 616.80 crore as on March 31, 2021 on account of scheduled debt repayments and relatively lower working capital utilization. Further, during FY21, the group infused around Rs. 25 crore in the form of unsecured loans through three entities August Agents Limited (AAL), Insilco Agents Limited (IAL), Laneseda Agents Limited (LAL) which are wholly owned entity of associate company of UCL 'Vindhya Telelinks Limited'. Resultantly, overall gearing ratio of the company improved, however continues to remain moderate at 1.28x as on March 31, 2021 as against 1.45x as on March 31, 2020. However, owing to moderate profitability during FY21, total Debt to GCA of the company deteriorated from 8 times in FY20 to 16.19 times in FY21. Interest coverage ratio of the company also deteriorated from 2.31 times in FY20 to 1.64 times in FY21 due to lower operating profit.

Working capital intensive operations: UCL's operations continue to remain working capital intensive. The company continues to have higher debtor level as major counter parties are in power industry where payment terms are elongated. The credit period extended by the company to the cable (pure supply) customers is generally between 60-75 days. The company is also into EPC business where instead of relying on high interest-bearing advance from customers, it avails funding from banks. Generally, the payment cycle in case of EPC orders is between 150-195 days. The company's working capital cycle deteriorated from 167 days as on March 31, 2020 to 218 days as on March 31, 2021 on account of increase in the collection period which increased from 168 days in FY20 to 232 days in FY21. This is mainly due to high portion of receivables is linked with execution and slower execution in FY21 had resulted in consistent level of receivables. The average working capital utilization stood high for 12 months ended August 2021 at 89%. High working capital intensity has a bearing on the company's return indicators such as ROCE which stood low at 11.73% in FY20 and 10.47% in FY21.

Exposure to volatility of raw material prices: UCL is in cable manufacturing segment and continues to be exposed to volatility in raw material prices. Copper, Aluminum and Polyethylene are key materials consumed in cables segment. The orders under cables segment have partial price fluctuation clause, restricting ability of company to pass-on any increase in raw material costs. While bidding for orders, the company ties up raw materials as an attempt to capture the anticipated escalation in raw material prices, thus mitigating volatility of prices to an extent. Further, for EPC orders, the company has price escalation clauses for large and longer orders. The company also enters into forward contracts for hedging foreign exchange exposures against imports.

Inherent risk associated with execution of large orders in cable segment and prevalent competition in cable industry: UCL continues to derive major revenue from cable business. These orders are from various user industries mainly power sector (more than 75%). Any delay/deferral of operational expenditure by these companies might adversely impact the operational performance and consequently the overall business prospects of the company. Further, in the cable industry with the presence of organised and unorganised players, the business environment is quite competitive although UCL is a dominant player in EHV segment. However, the company's established position in cables business mitigates this to a large extent.

Industry Outlook

The electric wire and cable market in India is expected to grow by USD 1.65 billion between 2021 and 2025. The market is expected to be driven by factors such as the growth in renewable power generation, the expansion and revamping of infrastructure, increasing investments in metro, railways, etc. UCL is one the leading brands in wires and cable industry and holds sizeable market share in EHV cables. The company is amongst few players in manufacturing EHV cables in India and caters to growing demand in this segment. This creates a huge entry barrier as a new player will take anywhere between 4 and 8 years to qualify to bid for tenders. The growing energy demand in India propelled by sustained economic growth and urbanization has also bolstered the renewable energy development sector. With this, the need for strengthening of transmission and distribution sector has accentuated to reduce transmission losses. The government's focus on power for all, rural electrification and improving infrastructure has increased the demand for cables and wires.

Liquidity: Adequate

The expected cash accruals of the company of over Rs.75 crore in FY22, are adequate to meet the debt repayment obligations of around Rs. 7.42 crore. Intercorporate deposits from group are expected to be rolled over at the time of redemption. Working capital utilization for past 12 months ended August 21, stood at 89%. Furthermore, the group has demonstrated track record of supporting the entity, when required, as evident from outstanding ICDs of around Rs. 148 crores. Accordingly, in the event of exigencies, the promoter group is expected to extend support to the entity.

Analytical approach: Standalone after factoring in demonstrated group support

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company

UCL, part of M.P. Birla Group, is into manufacturing of power cables and capacitors for power industry, rubber cables for Original Equipment Manufacturers (OEM) and other industries like railways, steel plants, petrochemical plants, cement plants, oil rig manufacturers, ship building, mining and telecom cables. The power cables of the company are sold under the brand 'UNISTAR'. The company also has a technical collaboration with Furukawa Electric Company Ltd, Japan in the Extra High Voltage (EHV) cable sector and adopts Vertical Continuous Vulcanization (VCV) and Pressurized Liquid Salt Bath Curing (PLCV) technology for manufacturing power and rubber cables respectively. Apart from manufacturing power cables for multifarious applications, UCL has dedicated EPC team to execute Turnkey Contracts for various Utilities/Projects in the EHV segment.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	1,581.88	1292.96	281.55
PBILDT	178.89	103.12	32.76
PAT	64.55	12.17	7.46
Overall gearing (times)	1.45	1.28	1.21
Interest coverage (times)	2.32	1.64	2.01

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

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		-	-	-	1105.00	CARE A1
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	18.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit		-	-	-	500.00	CARE A; Stable
Non-fund-based - LT-Letter of credit		-	-	-	13.50	CARE A; Stable
Term Loan-Long Term		-	-	January, 2025	13.93	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	1105.00	CARE A1	-	1)CARE A1 (30-Nov-20)	1)CARE A1 (23-Mar-20)	1)CARE A1 (18-Mar-19)2)CARE A1 (12-Apr-18)
2	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	18.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (30-Nov-20)	1)CARE A; Positive / CARE A1 (23-Mar-20)	1)CARE A; Positive / CARE A1 (18-Mar-19)2)CARE A; Stable / CARE A1 (12-Apr-18)
3	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (30-Nov-20)	1)CARE A; Positive (23-Mar-20)	1)CARE A; Positive (18-Mar-19)2)CARE A; Stable (12-Apr-18)
4	Non-fund-based - LT-Letter of credit	LT	13.50	CARE A; Stable	-	1)CARE A; Stable (30-Nov-20)	-	-
5	Term Loan-Long Term	LT	13.93	CARE A; Stable	-	1)CARE A; Stable (30-Nov-20)	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Letter of credit	Simple
3	Non-fund-based - LT/ ST-Derivative Limits	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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