Universal Cables Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	836.43 (Enhanced from 673.79)	CARE A; Stable	Reaffirmed
Long-term / short-term bank facilities	16.00	CARE A; Stable / CARE A1	Reaffirmed
Short-term bank facilities	1,400.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Universal Cables Limited (UCL) continue to derive strength from experienced and resourceful promoter group, MP Birla Group. The company enjoys high financial flexibility being part of the MP Birla group demonstrated by funding support in the past. The company has a well-established track record in cables business supported by technical collaboration with Furukawa Electric Company Limited (FECL), Japan and an adequate order book position providing medium-term revenue visibility. While reaffirming ratings, CARE Ratings Limited (CARE Ratings) has considered partial moderation in UCL's income and profitability levels in FY24 (refers to April 01 till March 31) considering planned shutdown of plant for modernisation capex though it will lead to improved profitability going forward at a level of 8-10% in the medium term.

However, rating strengths remain partially offset by inherently working capital intensive operations, risks associated with fluctuating raw material prices and prevalent competition in cable and engineering procurement construction (EPC) businesses.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing total operating income (TOI) over ₹2,000 crore with improving profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to more than 10% and return on capital employed (ROCE) above 15% on a sustained basis.
- Overall gearing below 0.80x on a consistent basis and total debt/PBILDT ratio below 2.5x.
- Improving operating cycle on a sustained basis.

Negative factors

- Declining profitability margins marked by PBILDT margin of less than 8% or ROCE below 10% on a sustained basis.
- Increasing overall gearing beyond 1.2x.
- Operating cycle remaining elongated or deteriorating beyond 180 days.

Analytical approach: Standalone. The rating assessment factors in financial and management group support from MP Birla group.

Outlook: Stable

The stable outlook for bank facilities of UCL reflects CARE Ratings' expectation that the company is expected to sustain its business risk profile backed by established presence in the cables industry, which is supported by adequate order book in hand. The company is further expected to sustain its comfortable financial risk profile in the medium term with support envisaged from the promoter group, when required.

Detailed description of key rating drivers:

Key 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 diverse business interests including cement, jute, carbide, power cables, power capacitors, and telecom cables. Apart from UCL, these businesses are operated

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

through companies such as Birla Corporation Limited (rated 'CARE AA; Stable/CARE A1+) and Vindhya Telelinks Limited (VTL, rated 'CARE A+; Stable/CARE A1+'). The M.P. Birla Group has exhibited financial support to UCL in the form of subordinated unsecured loans/inter-corporate deposits, which stood at ₹148 crore as on March 31, 2024 (same as previous fiscal). In the past, the group extended financial support to UCL to fund capital expenditure for enhancing existing manufacturing capacities and working capital requirements, when required. CARE Ratings expects this support to continue in the future when required by the company.

Well-established track record in the cables business supported by technical collaborations

The company has an established track record of over five decades in the power cables business. UCL's cable division has a 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. UCL has technological tie-up with FECL, Japan. The company has installed two Vertical Continuous Vulcanizing (VCV) line with technology from FECL 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.

Healthy order book position providing medium-term revenue visibility

The company is a dominant player in the EHV segment and undertakes EPC (turnkey) contracts in this segment apart from supplying cables. The scope of these contracts includes manufacturing (per technical specification), supplying and laying, installation, and commissioning cables. UCL has a combined (for EPC and cables) unexecuted order book position of ₹1323.34 crore, as on March 31, 2024. Apart from that, the company has orders in pipeline amounting to ₹540.84 crore as on March 31, 2024. The company also has EPC work orders of ₹461 crore as on March 31, 2024, where the production is yet to start. All these orders provide revenue visibility for the medium term.

Moderate operational and financial risk profile

The company's TOI decreased to ₹2044.27 crore in FY24 from ₹2219.58 crore in FY23 considering planned shutdown for modernising, upgrading and replacing old machines in a phased manner in second and third quarters of the fiscal. Due to this, sales of the EHV segment were impacted and decreased by over 38% on y-o-y basis, which is also the highest margin segment. Accordingly, PBILDT margin slightly moderated to 8.21% in FY24 as compared to 8.66% in FY23, however it is expected to improve in the current fiscal owing to modernisation of EHV unit. The company is expected to sustain PBILDT margin of 8-10% in the medium term.

Overall gearing stood at 0.64x as on March 31, 2024 (PY: 0.62x). The moderation was considering increase in total debt levels to ₹647.08 crore as on March 31, 2024, from ₹524.20 crore as on March 31, 2023, mainly due to higher utilisation of working capital limits attributable to working capital intensive operations. Debt-coverage indicators were also impacted due to profitability marked by total debt to gross cash accruals (TD/GCA) and interest coverage ratio of 8.44x and 1.82x respectively in FY24. (PY: 6.31x and 1.96x respectively). The company has planned debt-funded capacity expansion for a total outlay of ₹277 crore, which will be funded through term loan of ₹150 crore and related party loans of ₹125 crores. Despite the capex, capital structure is expected to remain moderate in the medium term.

Key weaknesses

Working capital intensive operations leading to high reliance on working capital borrowings

UCL's operations continue to remain working capital intensive. The company continues to have higher debtor level as major counterparties are in the power industry, where payment terms are elongated. Credit period extended by the company to cable (pure supply) customers is generally up to 120 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, payment cycle in case of EPC orders is between 150-195 days. EPC/turnkey project generally takes 18-24 months for completion, which leads to accumulation of debtors due to milestone-based payment mechanism. The company's working capital cycle deteriorated to 174 days in FY24 against 143 days in FY23 majorly considering elongation of collection period. The collection period increased to 176 days in FY24 from 154 days in FY23 attributable to shutdown of plant in Q2 and Q3, which pushed execution of EPC to Q4 leading to attain higher receivables on balance sheet date. Average working capital utilisation continued to remain high at around 82% for 12-months ended April 2024.

Exposure to raw material price volatility

Copper, aluminium and polyethylene are key materials consumed in the cables segment, prices of which are volatile. While bidding for orders, the company ties up raw materials as an attempt to capture the anticipated escalation in raw material prices, mitigating price volatility. For EPC orders, the company has price escalation clauses for large and longer-period orders. UCL has also a fullfledged hedging desk since January 2022 to hedge itself from adverse fluctuations in raw material prices for orders which are fixed price in nature. The company also engages in hedging programmes, by forward contracts, currency swaps and interest rate swaps, to hedge its foreign exchange exposure with respect to its imports and borrowings denominated in foreign currency. Apart from that, the company's exports are generally denominated in USD and provide a natural hedge to some extent against foreign currency payments. UCL also avails a part of its working capital borrowings in foreign currency to hedge itself against any adverse fluctuations. In FY24, the company derived an additional income of ₹4.54 crore (₹5.85 crore in FY23) considering favourable foreign currency movements.

Inherent execution risks and competition in cable industry

UCL continues to derive major revenue from cable business (~70% of TOI in FY24). These orders are from user industries mainly power sector (more than 75%). Delays/deferrals in operational expenditure by these companies might adversely impact operational performance and consequently overall business prospects of the company. In the cable industry, with the presence of organised and unorganised players, business environment is quite competitive. CARE Ratings notes that the company's established position in cables business mitigates this risk to an extent.

Liquidity: Adequate

The company has adequate liquidity characterised by current ratio of more than 1.4x and quick ratio of more than 1x in the last three fiscals ending FY24. UCL has repayment obligations amounting to ₹57.78 crore in FY25 against, which gross cash accruals (GCA) is estimated to be around ₹82 crore. The company's operations are working capital intensive marked by operating cycle of 174 days attributable to elongated collection period due to EPC segment. High working requirements are majorly met through bank borrowings, which had an average utilisation of around 82% in 12-months ending April 2024.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Cables - electricals

Part of the M.P. Birla Group, UCL is into manufacturing power cables and capacitors for power industry, rubber cables for original equipment manufacturers (OEM) and other industries such as railways, steel plants, petrochemical plants, cement plants, oil rig manufacturers, ship building, mining and telecom cables. The company's power cables are sold under the brand 'UNISTAR'. The company also has a technical collaboration with Furukawa Electric Company Limited, 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 utilities/projects in the EHV segment.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,207.80	2,025.20
PBILDT	191.22	166.23
PAT	63.19	54.26
Overall gearing (times)	0.62	0.64
Interest coverage (times)	1.96	1.82

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	500.00	CARE A; Stable
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	16.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	1400.00	CARE A1
Term Loan-Long Term		-	-	31 March 2028	336.43	CARE A; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-BG/LC	ST	1400.00	CARE A1	-	1)CARE A1 (09-Oct-23) 2)CARE A1 (04-Jul-23)	1)CARE A1 (13-Dec-22)	1)CARE A1 (02-Nov-21)
2	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	16.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (09-Oct-23) 2)CARE A; Stable / CARE A1 (04-Jul-23)	1)CARE A; Stable / CARE A1 (13-Dec-22)	1)CARE A; Stable / CARE A1 (02-Nov-21)
3	Fund-based - LT-Cash Credit	LT	500.00	CARE A; Stable	-	1)CARE A; Stable (09-Oct-23)	1)CARE A; Stable	1)CARE A; Stable

						2)CARE A; Stable (04-Jul-23)	(13-Dec-22)	(02-Nov-21)
4	Non-fund-based - LT-Letter of credit	LT	-	-	-	1)Withdrawn (04-Jul-23)	1)CARE A; Stable (13-Dec-22)	1)CARE A; Stable (02-Nov-21)
5	Term Loan-Long Term	LT	336.43	CARE A; Stable	-	1)CARE A; Stable (09-Oct-23) 2)CARE A; Stable (04-Jul-23)	1)CARE A; Stable (13-Dec-22)	1)CARE A; Stable (02-Nov-21)

*LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Derivative Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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

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About us:
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