August 02, 2022

Svarn Infratel Private Limited: Removed from non-cooperating category, ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-based TL	49.40	30.29	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable) and removed from Issuer not cooperating category
Long Term – Fund-based/CC	30.00	84.00	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable) and removed from Issuer not cooperating category
Short Term – Non-fund Based	77.00	58.00	[ICRA]A3+; upgraded from [ICRA]A4+ and removed from Issuer not cooperating category
Long Term – Interchangeable	(20.00)	(20.00)	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable) and removed from Issuer not cooperating category
Long/Short Term – Unallocated	0.60	0.00	-
Total	157.00	172.29	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in the healthy growth in the company's turnover in FY2022 and expectations of the growth trend continuing in the near to medium term as the order book is comfortable. Further, the ratings factor in the company's established association with reputed clientele like Nokia Solutions & Networks India Pvt. Ltd (NSN), Reliance Jio Infocomm Limited and Indus Towers Limited. SIPL has been associated with its key customer – NSN – for over 15 years and has managed to consistently gain business on the back of regular investments in capacities. Further, the ratings favourably consider the company's diversification into long sheet metal products for the Railways and other cable product variants. This bodes well for the company's medium-term revenue prospects.

SIPL's margins have been following a declining trajectory that continued in FY2022 as well, primarily because of the increase in commodity prices and execution of lower profitable orders. The lower margins, coupled with the capex executed by the company in the past to expand its capacities, have exerted pressure on the company's return metrics. Moreover, the ratings remain constrained by high customer concentration risk as the top three customers accounted for ~79% of the total revenue in FY2022. Nonetheless, this is likely to moderate to some extent with the diversification of the customer base. Further, with the revenues being linked to the investment cycles, any slowdown in capital expenditure in the telecom sector may impact the demand prospects of SIPL's products.

The Stable outlook on the long-term rating reflects ICRA's opinion that SIPL will continue to maintain its growth momentum in the medium term with sizable fresh orders secured from its existing as well as new customers.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The promoters of the company have been involved in the telecom passive equipment manufacturing industry for the last one decade. They have established strong relations with customers and suppliers, which have helped it to sustain the profit margins despite intense competition.

Reputed customer profile – SIPL manufactures passive telecom equipment such as copper cable, data cable, optical fibre cable assemblies, shelters, etc., which are supplied to reputed OEMs such as NSN, Indus Tower Limited, Vodafone Idea Ltd, etc. SIPL has also added new customers, including Railway Coach Factory, zonal railways (Northern Railways, Western Railways), One RX India Private Limited, Reliance Jio Infocomm Limited, in recent years, which has supported its revenue growth.

Diversification to new product segments – SIPL's growth momentum in the medium term is supported by incremental order flows in the wires and cables segment (which accounted for ~56% of the FY2022 revenues). The diversification of its revenue streams to new product segments like sheet metal components (which accounted for ~25% of the FY2022 revenues) wherein it supplies cabinets, side walls, retention tanks, overhead tanks, etc. and the retail segment (which accounts for ~16%) for furniture fixtures also supports growth.

Healthy growth in operating Income – SIPL is demonstrating a healthy growth in operating income, driven by the increase in volumes. With a healthy order book position, recurring orders, good customer relationships, the growth is likely to continue in the medium term.

Credit challenges

High customer-concentration risk – SIPL is exposed to customer concentration risk with its exposure to the top three customers at ~79% in FY2022. Although it has taken tangible efforts to diversify the customer base, NSN remains the highest contributor to SIPL's overall sales, rendering the business operations vulnerable to the performance of its key customer. Diversification of the products as well as the customer base with the increase in revenues will alleviate this risk to an extent, going forward.

Revenues linked to investment cycles in telecom sector – The revenues of the company are largely linked to the investment cycles in the telecom sector. Any slowdown in capital expenditure may impact the demand prospects, given that ~56% of its revenues are derived from the wires and cables segment and ~25% from sheet metal components. Nonetheless, the company has commenced supplies to the Railways in recent years, which has mitigated the vulnerability of the revenues to the telecom sector to a certain extent. However, the railway contracts have relatively low profitability.

High working capital intensity– SIPL's working capital requirement has increased with the expansion in the business scale. Moreover, as SIPL imports the raw materials (30–35% of the total raw material costs), it has to maintain a stock, leading to high inventory days. The working capital intensity of the business is around ~25-28% owing to high debtor and inventory days. Nonetheless, the counterparty credit risk remains low.

Competitive and fragmented industry – The copper cable manufacturing industry is characterised by a low level of capital investment and value addition, which results in intense competition. However, the company's relations with various OEMs and expertise in manufacturing quality cable for the telecom industry helps it in receiving regular orders without compromising on the profit margins. Moreover, the company's foray into new product lines, such as e-beams, is expected to mitigate the competition to an extent.

Liquidity position: Adequate

SIPL's liquidity position remains comfortable, supported by the adequate cushion in working capital limits. While the funding requirements are expected to remain high with the scheduled debt repayment obligations and the relatively elevated working capital requirements, SIPL's liquidity position is likely to remain adequate, supported by the available liquidity buffer and an expected improvement in earnings from operations.

Rating sensitivities

Positive factors – A notable improvement in the profitability and coverage indicators while sustaining the scale of operations will support a rating upgrade. Adequate returns from the ongoing capex with further improvement in the liquidity position can also result in an upgrade.

Negative factors – Downward pressure on the ratings may arise if there is a significant decline in revenues on account of weakening of the performance of its key customers, leading to strain on cash flows, profitability, or liquidity. A specific credit metric that could lead to a rating downgrade includes DSCR below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on consolidated financials of SIPL along with its subsidiary Svarn Middle East DWL LLC in view of synergies in their businesses

About the company

Svarn Infratel Private Limited (SIPL) was incorporated in July 2010 by Mr. Suresh Singhal, Mr. Sadhu Ram Gupta, Mr. Vijay Gupta and Mr. Ajay Gupta. The company primarily manufactures passive telecom infrastructure, including cables and sheet metal components like racks, cabinets, and also pre-fabricated structure for retail outlets at its manufacturing plants in Haryana.

Key financial indicators

SIPL Consolidated	FY2021	FY2022(provisional)*
Operating income	459.4	584.1
PAT	19.4	20.8
OPBDIT/OI	8.5%	7.8%
PAT/OI	4.2%	3.6%
Total outside liabilities/Tangible net worth (times)	1.9	1.7
Total debt/OPBDIT (times)	3.5	3.3
Interest coverage (times)	4.7	3.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore , *provisional figures-on standalone basis*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of June, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					August 2, 2022	Mar 29,2022	December 31,2020	June 25,2019
1.	**Fund Based TL**	Long Term	30.29	30.29	[ICRA]BBB (Stable);	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING *;	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2.	**Fund Based/ CC**	Long Term	84.0	-	[ICRA]BBB (Stable);	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING *;	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3.	**Non-Fund Based**	Short Term	58.0	-	[ICRA] A3+;	[ICRA]A4+ ISSUER NOT COOPERATING *;	[ICRA]A3+	[ICRA]A3+
4.	**Fund Based/ CC***	Long Term	(20.0)	-	[ICRA]BBB (Stable);	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING *;	[ICRA]BBB (Stable)	-
5.	**Unallocated**	Long/Short Term	0.00	-	-	[ICRA]BB+ (Stable)/A4+ ISSUER NOT COOPERATING *;	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	June18-Aug20	-	Sept23-Dec25	30.29	[ICRA]BBB (Stable)
NA	CC/WCDL-1	-	-	-	30.00	[ICRA]BBB (Stable)
NA	CC/WCDL-2	-	-	-	30.00	[ICRA]BBB (Stable)
NA	CC/WCDL-3	-	-	-	24.00	[ICRA]BBB (Stable)
NA	LC/BG/SBLC-1	-	-	-	30.00	[ICRA]A3+
NA	LC/BG/SBLC-2	-	-	-	22.00	[ICRA]A3+
NA	LC/BG/SBLC-3	-	-	-	6.00	[ICRA]A3+
NA	CC/WCDL(sublimit)	-	-	-	(20.00)	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	0.00	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	SIPL Ownership	Consolidation Approach
Svarn Middle East DWL LLC	99.0%	Full Consolidation

Source: SIPL annual report FY2021

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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