May 24, 2024

ITI Limited: Ratings upgraded to [ICRA]BB- (Stable)/[ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund based cash credit	2,445.00	1,890.00	[ICRA]BB-(Stable)/[ICRA]A4; upgraded from [ICRA]D/[ICRA]D
Long term/Short term - Non-fund based	2,024.50	2,390.53	[ICRA]BB-(Stable)/[ICRA]A4; upgraded from [ICRA]D/[ICRA]D
Total	**4,469.50**	**4,280.53**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade primarily factors in the regularisation in debt servicing by ITI Limited (ITI), evident from the timely payments of its obligations since January 2024. The earlier downgrade factored in the delays in debt servicing of one of its working capital loan facilities owing to its poor liquidity position caused by delays in recoveries from clients.

The ratings continue to factor in ITI's parentage, with the Government of India (GoI) holding a ~90% stake in the company, along with the vast experience of its management and its presence in some of the strategically important projects in the information, communication and technology (ICT) space. ITI continues to benefit from the grants received from the Government under the financial revival package approved by the Cabinet Committee on Economic Affairs (CCEA) in 2014. As per the approved revival plan, the total capital grant and revenue grant sanctioned by the Government is Rs. 2,264 crore and Rs. 1,892.8 crore, respectively. The capex grant is used to buy capital equipment for the projects, while the revenue grant is for managing operating costs and statutory obligations etc. The ministry had sanctioned Rs. 160 crore for FY2024; however, the amount was not allocated as ITI had some unutilised funds from the previous year. For FY2025, Rs. 168 crore has been budgeted.

Supported by its track record, ITI has won key projects like BSNL's 4G network project, the ASCON Phase IV project of the Ministry of Defence, supply of smart energy meters, network for spectrum, TANFINET, etc. A strong order book of over Rs. 11,224 crore as of March 2024 provides healthy revenue visibility. However, the company has faced challenges in execution, which has resulted in elongated working capital cycle and elevated debt levels. The improvement in the pace of execution and a moderation in the working capital intensity, thus, remain the key monitorables.

ITI's financial performance has remained weak over the last two years. In 9M FY2024, the company reported a net loss of Rs. 330.09 crore, while its revenues rose ~6.8% YoY. The higher revenue share of low-margin orders, a sharp rise in operating costs and less-than-commensurate booking of revenue due to delays in completion of projects resulted in net losses in 9M FY2024. While historically, majority of the revenue and profit booking happens in the last quarter of the fiscal, the profitability in FY2024 is also expected to be under pressure because of the delays in order execution and the company is likely to report losses similar to FY2023. The performance is likely to improve in FY2025 with stronger order execution in the second half of the year, though the ability of the company to demonstrate healthy and profitable execution of the projects remains to be seen.

Further, the liquidity remains poor owing to the elongated working capital intensity and elevated receivables. The high receivables and the sizeable working capital blocked in unbilled revenues have led to higher reliance on external debt. This, coupled with the modest profit generation, has translated into weak debt coverage indicators.

The Stable outlook on the long-term rating reflects ICRA's opinion that ITI Limited will benefit from its healthy order book position and will be able to report revenue growth, going forward, with an improvement in the profit generation.

Key rating drivers and their description

Credit strengths

Long operational track record and experienced management - ITI has over seven decades of operational expertise in manufacturing equipment and providing services to industries like telecom, defence, information technology, banks, financial institutions etc. ITI's operations are currently managed by Mr. Rajesh Rai, who has a vast experience in the telecommunication industry. He is supported by an experienced team with a strong technical background.

Operational and financial support from GoI - ITI is a government-owned company with ~90% stake held by the GoI and its operations are administered by the DoT under the Ministry of Communications. With the first-mover advantage, ITI has been one of the key contractors for the projects of BSNL, MTNL, Ministry of Defence, Ministry of Rural Development, etc., in the last few decades. Given its strategic importance, ITI has been involved in Government projects such as Make in India, Digital India, Smart City.

ITI was declared a sick company in 2004 due to past losses and erosion of net worth. To restore ITI's financial health, the CCEA approved a fund infusion of Rs. 4,157 crore in 2014 under SICA provisions. Till April 2024, ITI had received Rs. 1,132.56 crore of capex grant and the entire share of the revenue grant. ITI also receives grant to meet the statutory liabilities for provident fund (PF) and gratuity of the employees and this has been recorded in the P&L account for FY2023. Despite the removal of letter of comfort, the GoI continues to support ITI. The Government has asked other ministries (clients of ITI) to support ITI's liquidity by making timely payments. The GoI has also aided the release of additional advances of Rs. 600 crore from the Ministry of Defence for the Ascon project.

Strong order book translating into healthy revenue visibility - ITI has won key projects like BharatNet Phase II, the defence ministry's Ascon project, supply of smart energy meters, network for spectrum, etc. ITI also has a preferred supplier status among its key customers. It has also bagged an order from BSNL worth Rs 2,242.67 crore for its 4G rollout. The revenue visibility remained healthy with a strong order book of over Rs. 11,224.36 crore as of March 2024.

Credit challenges

Weak financial profile – ITI's financial profile is weak, characterised by low operational cash flows, losses in the last two fiscals and high working capital intensity. Despite strong order wins, the revenues and accruals were affected by project delays. These factors, coupled with the elongation in the receivable cycle, resulted in a poor liquidity position.

ITI reported a net loss of Rs. 330.09 crore for 9M FY2024 due to lower booking of revenue and increased operating costs. While recovery is expected in the last quarter of FY2024 with improved order execution and billing, ITI's ability to control its fixed overheads and improve the collection of pending receivables etc., will be critical to improve its financial profile.

Further, the revenue bookings and earnings are volatile due to the lumpy nature of the order inflows and erratic execution of bulk tender contracts. Pending receivables on past orders and sizeable unbilled revenues owing to delays in order execution have resulted in high working capital intensity, which in turn has kept the reliance on external debt high. High debt levels and subdued profit generation have translated into weak debt coverage metrics, reflected in an estimated interest coverage of less than 1 times for FY2024.

High customer concentration risk – ITI's client profile primarily includes PSUs, the Ministry of Defence and other Government agencies and consists of entities such as BSNL, MTNL, EESL, BBNL, etc. Over 95% of ITI's revenues and its current order book is from Government customers. Going forward, the company's dependence on major clients will remain high because of its large order book; however, ITI remains critical for the customers too and has longstanding relations with them along with a priority quota.

Environmental and Social Risks

ITI is exposed to the risks of tightening regulations on environment and safety. There were no pending showcause/legal notices from the Central Pollution Control Board (CPCB)/State Pollution Control Board (SPCB) at the end of FY2023. This indicates that ITI has been able to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance.

ITI designs and manufactures wireline and wireless networking products, with focus on technology, innovation and R&D. The business is characterised by rapid technological changes, customer requirements, evolving industry standards and launch of products and services. Further, intellectual property (IP) is a critical element of the business. The patent rights may be overturned by its competitors which may adversely affect the business and reputation. Therefore, while ITI remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now.

Liquidity position: Poor

There were delays in debt servicing for the months of October and November 2023 owing to an elongation in the working capital cycle and moderation in cash flow generation. However, since January 2024, the company has been meeting its debt servicing obligations timely. Nevertheless, the liquidity continues to be poor owing to the elevated working capital intensity, translating into consistently high utilisation of the working capital limits. Delays in order execution and an elongated receivable cycle has kept the working capital intensity elevated, which along with the weak profitability has exerted pressure on the company's liquidity position.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company demonstrates a consistent improvement in its liquidity position and profitability on a sustained basis.

Negative factors – Pressure on the ratings could arise if ITI is unable to improve its profitability and liquidity position. Further, any weakening of support from or linkages with the GoI can result in a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Support: Government of India The ratings derive comfort from ITI's strong parentage with majority ownership of the GoI. ITI is of some strategic importance for the GoI as an instrument of policy implementation, which ICRA expects should induce the Government to extend timely financial support to the rated entity
Consolidation/Standalone	The rating is based on the consolidated financial statements of the rated entity (details in Annexure-II)

About the company

ITI Limited, incorporated in 1948, manufactures telecom equipment and provides solutions to telecom service providers, the Ministry of Defence and other Government agencies. The company's product portfolio includes GSM & CDMA products, defence products and other diversified products. ITI's service portfolio includes managed leased line networks, standalone signalling transfer point networks, turnkey telecommunication solutions, data centres, etc. ITI's manufacturing facilities are in Bengaluru, Uttar Pradesh, Kerala and Jammu & Kashmir. In addition to these manufacturing plants, ITI has a dedicated network system to execute turnkey projects for the installation and maintenance of all its products. ITI has an R&D set-up at its Bengaluru unit with focus on encryption, supervisory control, data acquisition and wireless products.

Key financial indicators (audited)

ITI Ltd Consolidated	FY2022	FY2023	9MFY2024*
Operating income	1,861.8	1,402.2	662.4
PAT	121.1	-360.1	-330.1
OPBDIT/OI	5.9%	-10.2%	-21.9%
PAT/OI	6.5%	-25.7%	-49.8%
Total outside liabilities/Tangible net worth (times)	2.6	3.0	
Total debt/OPBDIT (times)	14.6	-13.1	
Interest coverage (times)	0.6	-0.7	-0.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					May 24, 2025	Dec 06,2023	May 19, 2023	-	March 10, 2022
1	Fund-based cash credit	Long-term/short-term	1,890.00	-	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]D /[ICRA]D	[ICRA]BBB-(Stable)/ [ICRA]A3	-	[ICRA]BBB-(Stable)/ [ICRA]A3
2	Non-fund based working capital facilities	Long- term/ short- term	2,390.53	-	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]D /[ICRA]D	[ICRA]BBB-(Stable)/ [ICRA]A3	-	[ICRA]BBB-(Stable)/ [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short term fund-based cash credit	Simple
Long-term/Short-term non-fund based working capital facilities	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based cash credit	NA	NA	NA	1,890.00	[ICRA]BB-(Stable)/[ICRA]A4
NA	Non-fund based working capital facilities	NA	NA	NA	2,390.53	[ICRA]BB-(Stable)/[ICRA]A4

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	Ownership	Consolidation Approach
India Satcom Limited	49.06%	Equity Method

Source: ITI annual report FY2023

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Himani Sanghvi
+91 79 6923 3048
himani.sanghvi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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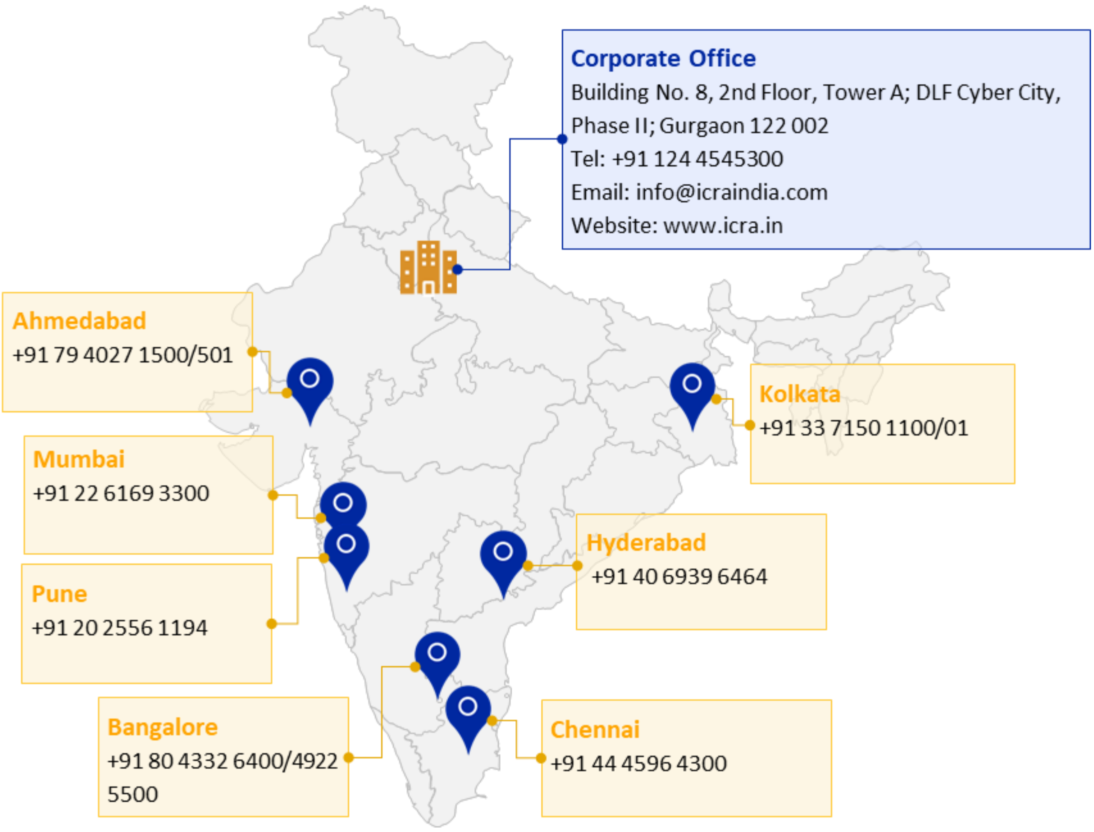

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