May 19, 2023

ITI Limited: Ratings reaffirmed

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	2,445.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Long-term/Short-term - Non-fund based	2,024.50	2,024.50	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	**4,469.50**	**4,469.50**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in ITI Limited's strong parentage, with the Government of India (GoI) holding ~90% stake in the company, along with the vast experience of its management and its healthy operational profile as it is a part of 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. Till February 2023, ITI had received Rs. 1,026 crore of capex grant and the entire share of the revenue grant. 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 has allocated capital funds of Rs. 187.82 crore for FY2022-FY2023 and budgeted Rs. 160 crore for FY2023-FY2024.

Supported by its track record, ITI has won key projects like BharatNet Phase-II and ASCON Phase IV project of the Ministry of Defence, supplying smart energy meters, network for spectrum, TANFINET, etc. Apart from these, a big order is expected from Bharat Sanchar Nigam Limited (BSNL) for deployment of the latter's 4G services, though the timeline and quantum of the same remains to be seen. ITI also has a preferred supplier status among its key customers. With a strong order book of over Rs. 9,517.1 crore (as of September 2022), the revenue visibility is healthy. While order executions have remained slow till 9M FY2023, the pace of execution is expected to pick up in Q4 FY2023, as has been the case historically. While it remains to be seen whether the execution pace is sustained, the company has implemented changes in its project strategies to reduce the inherent cyclicality in revenue booking.

ITI's financial performance in the last three quarters has been weak. In 9M FY2023, the company reported a net loss of Rs. 287.20 crore, while its revenues declined by ~13.8% YoY. The higher revenue share of low-margin orders and the sharp rise in operating costs, higher execution and less-than-commensurate booking of revenue due to delays in completion of projects had resulted in net losses in 9M FY2023. However, this is typically the case where majority of the revenue and profit booking happens in the last quarter. The company's performance is likely to improve in Q4 FY2023 with stronger order executions in the second half of the year and the sourcing of new margin-accretive orders. Overall, ITI's credit profile remains weak with moderate profitability and stretched liquidity on the back of elevated working capital requirements, although a large part of the receivables is backed by payables and advances from customers.

The Stable outlook on the long-term rating reflects ICRA's opinion that ITI Limited will be able to report steady revenue growth, going forward, given its healthy order book position.

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 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 February 2023, ITI had received Rs. 1,026 crore of capex grant and the entire share of the revenue grant. Apart from the grants, the GoI has extended unsecured loans and a letter of comfort for ITI's working capital lines. ITI also receives grant to meet the statutory liabilities for provident fund (PF) and gratuity of the employees and the same has been recorded in the P&L in FY2022.

Strong order book – ITI has won key projects like BharatNet Phase-II, ASCON Phase IV Project of the Ministry of Defence, supplying smart energy meters, network for spectrum, etc. ITI also has a preferred supplier status among its key customers. The revenue visibility is healthy with a strong order book of over Rs. 9,517.1 crore as of September 2022. A large order for the deployment of 4G services for BSNL is also expected, though the quantum and timeline of the order remains to be seen.

Credit challenges

Weak financial profile – ITI's financial profile is weak, characterised by low operational cash flows, accumulated losses on the back of sharp losses in the past and high working capital intensity. Despite strong order wins, the revenues and accruals were affected by project delays and deferments. This, coupled with the delay in receivables, resulted in a tight liquidity position. The funding requirements have been largely supported by grants, which were applied for to meet the operational and capex requirements.

ITI reported a net loss of Rs. 287.2 crore for the period ended 9M FY2023 due to lower booking of revenue and increased operating costs. While recovery is expected in Q4 FY2023 with improved order executions 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. ITI is also looking to monetise non-core assets, the timeliness of which remains to be seen. The company's operations are working capital intensive and due to the lumpy nature of the order inflows and execution of bulk tender contracts, the revenue bookings and earnings are volatile. Pending receivables on past orders and restricted access to bank funding results in high working capital intensity.

High customer concentration risk – ITI's client profile primarily includes PSUs, the Ministry of Defence, and other Government agencies and consists of BSNL, MTNL, EESL, BBNL, etc. Over 95% of ITI's revenues in FY2022 and 9M FY2023 and its current order book are 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 show cause/legal notices from the Central Pollution Control Board (CPCB)/State Pollution Control Board (SPCB) at the end of FY2022. 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 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: Stretched

ITI's utilisation of the working capital lines has been mostly full against the sanctioned working capital lines. This is because of the funding requirement due to the working capital-intensive nature of operations and elongated receivables. The company has no term loans on its books apart from a soft loan of Rs. 300 crore from the Government. ITI's free cash and bank balance was Rs. 5 crore as on September 30, 2022, in addition to the encumbered bank balance of ~Rs. 217.44 crore.

Rating sensitivities

Positive factors – ICRA may upgrade ITI's ratings if it demonstrates a strong and sustained growth in operational cash flows and better working capital management, improving the liquidity position and debt coverage indicators.

Negative factors – Pressure on the ratings could arise if there is a deterioration in ITI's credit profile, led by further pressure on its working capital cycle and liquidity position. Further, any weakening of support or linkages with the GoI can result in a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's credit rating
Parent/Group Support	Parent/Group Support: Government of India The ratings derive comfort from ITI's strong parentage with majority ownership from the GoI, along with some strategic importance that ITI holds 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 consolidated financial statements of the rated entity (details in Annexure-2)

About the company

ITI Limited, incorporated in 1948, is involved in manufacturing telecom equipment and providing 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 unit for the execution of turnkey projects covering installation and maintenance support activities for all its products. ITI has an R&D set-up in its Bengaluru unit with key focus areas of encryption, supervisory control and data acquisition and wireless products.

Key financial indicators (audited)

ITI Ltd Consolidated	FY2020	FY2021	FY2022	9M FY2023
Operating income (Rs. crore)	2064.5	2365.6	1,861.8	620.2
PAT (Rs. crore)	147.5	11.2	121.1	-287.2
OPBDIT/OI (%)	7.9%	5.6%	6.4%	-23.8%
PAT/OI (%)	7.1%	0.5%	6.5%	-46.3%
Total outside liabilities/Tangible net worth (times)	2.2	2.6	2.6	-
Total debt/OPBDIT (times)	7.5	11.1	13.6	-
Interest coverage (times)	1.2	0.8	0.6	-1.0

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

Note – VRS expenses which are reimbursed by GoI as revenue grant are a part of both non-operating expense as well as non-operating income.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				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 FY2024	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					May 19, 2023	March 10, 2022	Dec 31, 2020	Jan 24, 2020
1	**Fund-based Cash credit**	Long-term/short-term	2445.00	--	**[ICRA]BBB-(Stable)/ [ICRA]A3**	**[ICRA]BBB-(Stable)/ [ICRA]A3**	**[ICRA]BBB-(Stable)/ [ICRA]A3**	**[ICRA]BBB-(Positive)/ [ICRA]A3**
2	**Non-fund based working capital facilities**	Long- term/ short- term	2024.50	--	**[ICRA]BBB-(Stable)/ [ICRA]A3**	**[ICRA]BBB-(Stable)/ [ICRA]A3**	**[ICRA]BBB-(Stable)/ [ICRA]A3**	**[ICRA]BBB-(Positive)/ [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	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-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Fund based Cash credit**	NA	NA	NA	2445.00	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	**Non-fund based working capital facilities**	NA	NA	NA	2024.50	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: ITI Limited

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
India Satcom Limited	49.06%	Equity Method

Source: ITI annual report FY2022

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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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