November 30, 2023

Svarn Infratel Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based TL	30.29	30.29	[ICRA]BBB (Stable); reaffirmed
Long term – Fund-based/CC	84.00	84.00	[ICRA]BBB (Stable); reaffirmed
Short term – Non-fund Based	58.00	58.00	[ICRA]A3+; reaffirmed
Long term – Interchangeable	(20.00)	(20.00)	[ICRA]BBB (Stable); reaffirmed
Total	**172.29**	**172.29**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Svarn Infratel Private Limited (SIPL) factors in the healthy growth in its turnover in FY2023 and expectations of the trend continuing with the addition of new orders and products. The company faced some pressure in the current fiscal as one of its key customers put its capex on hold; the investment is expected to be resumed in the next calendar year.

SIPL is foraying into new verticals, such as e-beam cables and the defence and automobile segments, which is likely to have a positive impact on the company's performance in the medium term. 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 till FY2022, primarily because of the increase in commodity prices and execution of lower margin orders. However, the trend reversed in the previous fiscal and the company is expected to report higher profitability in the current fiscal as well. The lower margins, coupled with the capex executed by SIPL 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 five customers accounted for ~76% of the total revenue in FY2023. The customer concentration is likely to moderate to some extent with the diversification of the customer base.

The company is undertaking a debt-funded capex programme to expand its manufacturing base/capacities which is likely to exert some pressure on the debt coverage indicators in the near term, although they are likely to improve thereafter. 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 sizeable fresh orders secured from its existing as well as new customers along with diversification into new verticals.

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 cables, data cables, optical fibre cable assemblies, shelters, etc., which are supplied to reputed OEMs such as NSN, Indus Tower Limited, Vodafone Idea Ltd, etc. SIPL has 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 into new product segments – SIPL's growth momentum in the medium term is supported by incremental order flows in the wire and cable segment (which accounted for ~57% of the FY2023 revenue). The diversification of its revenue stream to new product segments like sheet metal components (which accounted for ~18% of the FY2023 revenue) wherein it supplies cabinets, side walls, retention tanks, overhead tanks, etc., and the retail segment (which accounted for ~25% of FY2023 revenues) 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. A healthy order book position, recurring orders and good customer relationships are likely to fuel growth in the medium term.

Credit challenges

High customer concentration risk – SIPL is exposed to customer concentration risk with its exposure to the top five customers at ~76% in FY2023. 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 product portfolio 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 ~57% of its revenues are derived from the wire and cable segment and ~18% from sheet metal components. Nonetheless, the company has started supplying 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 ~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. The funding requirements are expected to remain high because of the ongoing debt-funded capex, scheduled debt repayment obligations and elevated working capital requirements. However, SIPL's liquidity position is likely to remain adequate, supported by the available liquidity buffer and an expected improvement in earnings from operations in the medium term.

Rating sensitivities

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

Negative factors – Pressure on the ratings may arise if there is a significant decline in revenues on account of low demand from the telecom sector, leading to a strain on the cash flows, profitability, or liquidity. A specific credit metric for downgrade would be 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 the consolidated financials of SIPL along with its subsidiary Svarn Middle East DWL LLC in view of the 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 (audited)

SIPL Consolidated	FY2022	FY2023
Operating income	591.5	773.1
PAT	17.7	26.3
OPBDIT/OI	7.2%	7.8%
PAT/OI	3.0%	3.4%
Total outside liabilities/Tangible net worth (times)	1.8	1.7
Total debt/OPBDIT (times)	3.2	2.8
Interest coverage (times)	3.4	3.4

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

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	Aug 02, 2022	Mar 29, 2022	Dec 31, 2020
1.	**Fund-based TL**	Long Term	30.29	51.01	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)
2.	**Fund-based/CC**	Long Term	84.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)
3.	**Non-fund based**	Short Term	58.0	-	[ICRA] A3+	[ICRA] A3+	[ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A3+
4.	**Fund-based/ CC**	Long Term	(20.0)	-	[ICRA]BBB (Stable)	[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+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based TL	Simple
Long term – Fund-based/CC	Simple
Short term – Non-fund based	Very Simple
Long term – Interchangeable	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	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)

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
Svarn PTE Limited	100.0%	Full Consolidation
PT. Svarn Group Indonesia	100.0%	Full Consolidation
Svarn Infratel Private Limited	100.0%	Full Consolidation

Source: SIPL annual report FY2023

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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.

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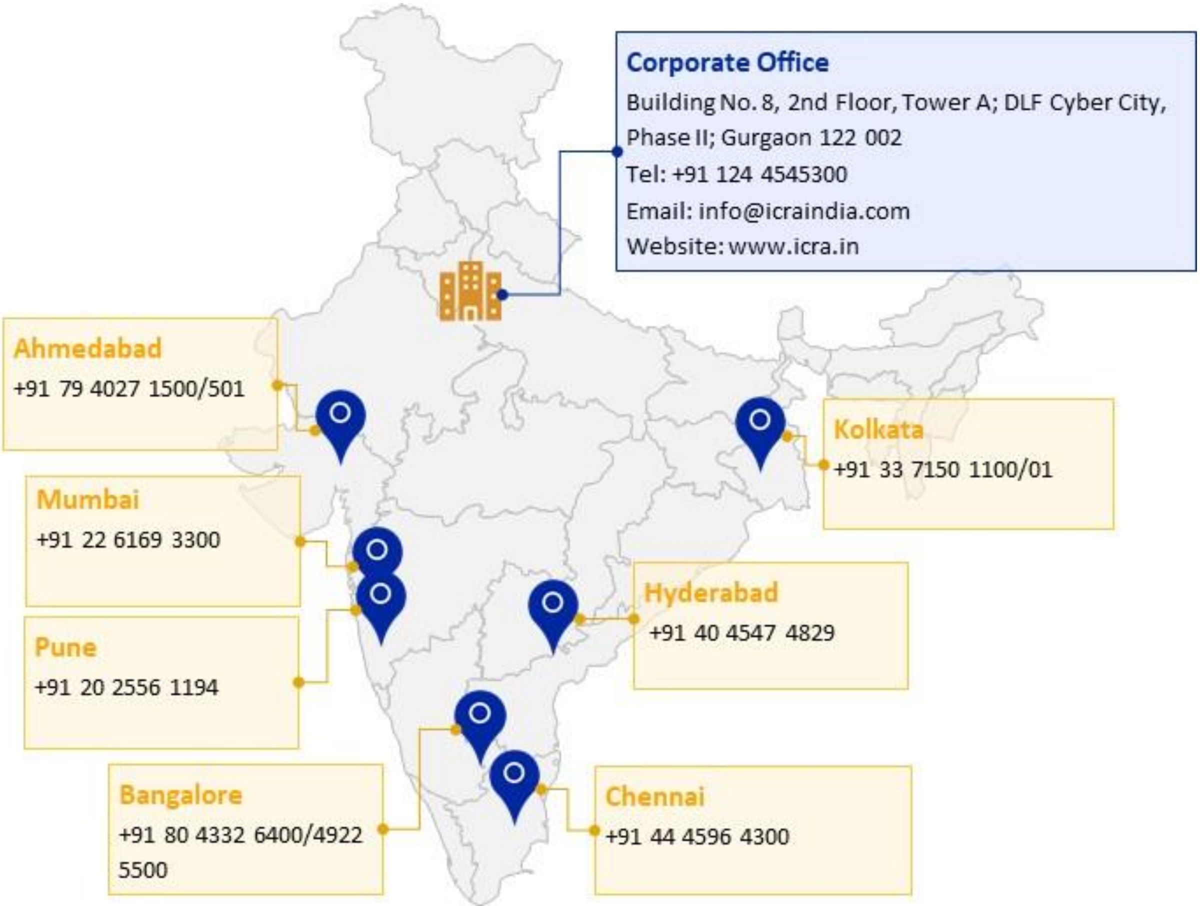

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