

December 31, 2020

Svarn Infratel Private Limited: Ratings reaffirmed; 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	10.00	49.40	[ICRA]BBB (Stable); reaffirmed/assigned
Long Term – Fund-based/ CC	40.00	30.00	[ICRA]BBB (Stable); reaffirmed/assigned
Short Term – Non-fund Based	32.00	77.00	[ICRA]A3+; reaffirmed/assigned
Long Term – Interchangeable	0.00	(20.00)	[ICRA]BBB (Stable); reaffirmed/assigned
Long/Short Term – Unallocated	1.00	0.60	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed/assigned
Total	83.00	157.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to factor in the extensive experience of Svarn Infratel Private Limited's (SIPL) promoters in the cables manufacturing business and the company's established association with a reputed clientele like Nokia Solutions & Networks India Pvt. Ltd (NSN), Reliance Jio Infocomm Limited, and Indus Towers Limited among others. SIPL has been associated with its key customer—NSN—for over 15 years now and has managed to consistently gain business share on the back of regular investments in capacities and by maintaining quality standards. Further, the ratings favourably consider the company's diversification into the long sheet metal products for the Railways and other cable product variants. This bodes well for the company's medium-term revenue prospects. The ratings also note the company's healthy financial profile, characterised by steady revenue growth along with healthy profitability and return indicators. Further, while SIPL's revenues and margins in the current year are likely to remain under pressure due to the pandemic-led disruptions along with an increase in commodity prices, ICRA believes that the company will be able to maintain its growth momentum in the medium term, backed by incremental order flows in wires and cables as well as the sheet metal segment. However, ICRA's ratings remain constrained by the high customer-concentration risk as a single customer accounted for ~40% of the total revenue in FY2020. Nonetheless, this is likely to moderate to some extent with diversification of the customer base. Moreover, with revenues being linked to investment cycles, any slowdown in capital expenditure in the telecom sector may impact the demand prospects of SIPL's products. The ratings also factor in the susceptibility of SIPL's margins to fluctuations in foreign exchange as well as raw material prices. The ratings are further constrained by the company's sizeable ongoing debt-funded capital expansion, which is likely to exert pressure on the cash flows and coverage metrics. Timely completion of the capex and the company's ability to achieve optimum capacity utilisation levels are critical from the credit perspective and hence, shall remain the key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that SIPL will continue to benefit from the experience of the promoters in the industry along with its long association with NSN, coupled 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 past one decade. They have established strong relations with customers and suppliers, which has helped it in sustaining its 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 the 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 ~70% of the FY2020 revenues). The diversification of its revenue streams to new product segments like sheet metal components wherein it supplies cabinets, side walls, retention tanks, overhead tanks, etc. and the retail segment, which is involved in furniture fixtures, also supports growth.

Credit challenges

High customer-concentration risk – SIPL is exposed to customer-concentration risk with its exposure to its top customer, NSN, which contributed ~40% of the revenues in FY2020. 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 as well as customer base with increase in revenues will elevate the risk to an extent going forward.

Revenues linked to investment cycles in telecom sector – The revenues of the company are largely linked to investment cycles in the telecom sector. Any slowdown in capital expenditure may impact demand prospects, given that ~70% of revenues are derived from the wires and cables segment. Nonetheless, the company has commenced supplies to the Railways in the recent years, which mitigates the vulnerability of the company's revenues to telecom.

Sizable debt-funded capex in the near-term is likely to exert pressure on coverage metrics and cash flows – The company is incurring ~Rs. 42 crore, primarily towards capacity expansion in the current year, funded by a debt of Rs. 29.4 crore (already tied-up) and the rest through internal accruals. While this capex is expected to further support the scale of operations and provide diversification benefits, the same is likely to increase the debt levels and exert pressure on the cash flows and coverage metrics in the near term. SIPL's ability to complete the capex in a timely manner, profitably scale up by achieving optimal capacity utilisation levels and generate commensurate returns will be critical from the credit perspective.

Increase in working capital intensity – SIPL's working capital requirement has increased with an expansion in business scale. Moreover, since it imports raw materials (30–35% of total raw material costs), SIPL maintains stock leading to higher inventory days. The working capital intensity of business witnessed an increase in FY2020 vis-à-vis FY2019 on account of a rise in receivable levels. In addition, there has been an increase in the debtors greater than six months in the recent period amid the pandemic. Nonetheless, the counter party 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 the e-beams is expected to mitigate the competition to an extent.

Liquidity position: Adequate

SIPL’s liquidity position remains comfortable, supported by the sufficient cushion in the unutilised working capital limits. While the funding requirements are expected to remain high with the scheduled debt repayment obligations and the likely increase in 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 from Q3 FY2021.

Rating sensitivities

Positive triggers: Notable improvement in the profitability and coverage indicators while sustaining the scale of operations, ensuring adequate returns from the ongoing capex with further improvement in the liquidity position.

Negative triggers: 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. Inability to maintain adequate financial flexibility or lack of adequate returns or weakening of credit metrics due to the ongoing debt-funded capex. Specific credit metrics that could lead to a rating downgrade include 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	Not applicable

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 of retail outlets at its manufacturing plants based out of Haryana.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	420.5	562.6
PAT (Rs. Crore)	17.0	29.2
OPBDIT/OI (%)	9.3%	8.7%
PAT/OI (%)	4.0%	5.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.0
Total Debt/OPBDIT (times)	1.6	2.2
Interest Coverage (times)	4.2	6.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					December 31, 2020	June 25, 2019	-	December 11, 2017
1	Fund Based TL	Long Term	49.4	17.1 [^]	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB-(Stable)
2	Fund Based/ CC	Long Term	30.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB-(Stable)
3	Non-Fund Based	Short Term	77.00	-	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3
4	Fund Based/ CC*	Long Term	(20.00)	-	[ICRA]BBB (Stable)	-	-	-
5	Unallocated	Long/Short Term	0.60	-	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	-	-

Amount in Rs. Crore; [^] as on March 2020; * Sublimit of non-fund based limit

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan 1	*	-	March 2023	9.00	[ICRA]BBB (Stable)
-	Term Loan 2	*	-	March 2025	11.00	[ICRA]BBB (Stable)
-	Term Loan 3	*	-	March 2026	29.40	[ICRA]BBB (Stable)
-	Cash Credit 1	*	-	-	30.00	[ICRA]BBB (Stable)
-	Cash Credit 2 (sublimit)	*	-	-	(20.00)	[ICRA]BBB (Stable)
-	Non-fund based 1	*	-	-	22.00	[ICRA]A3+
-	Non-fund based 2	*	-	-	55.00	[ICRA]A3+
-	Unallocated	-	-	-	0.60	[ICRA]BBB (Stable)/[ICRA]A3+

Source: SIPL; * Sanction letter for Axis bank – May 2020 and HDFC Bank – August and May 2019

Annexure-2: List of entities considered for consolidated analysis

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

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