January 29, 2020

Linkwell Telesystems Private Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	90.38	151.40	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Non-fund based limits	105.00	185.00	[ICRA]A2 reaffirmed
Unallocated Limits	134.62	163.60	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised to Positive from Stable
Total	**330.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Positive takes into consideration the expected improvement in operating profits of Linkwell Telesystems Private Limited (LTPL) over the medium term, driven by fixed lease rental income from point of sale (POS) terminals given on lease to various state government departments for public distribution system (PDS) through biometric automation. Moreover, the operating margins improved to 21% in FY2019 and further to ~27% in H1 FY2020 from 15% in FY2017 due to increase in lease rental and service income. Further, the operating income (OI) increased to Rs. 531.18 crore in FY2019 from Rs. 333.27 crore in FY2017, primarily on the back of higher sales of POS terminals and energy meters, coupled with increase in fixed lease rental income.

The ratings continue to factor in LTPL's extensive track record in manufacturing of energy meters and POS terminals; reputed customer base, which includes state power distribution companies and state government agencies. The ratings draw strength from its comfortable financial risk profile with gearing of 0.35 times as on September 30, 2019, interest coverage of 11.6 times and Net Cash Accruals(NCA)/Total Debt(TD) of 105% for FY2019. ICRA considers the favourable demand outlook for smart energy meters, given the government's focus on controlling aggregate technical and commercial (AT&C) losses in the power distribution segment and for POS terminals with government's focus on delivering state benefits to genuine beneficiaries directly through biometric automation.

The ratings are, however, constrained by high working capital intensity of the business owing to long receivable cycle given the preponderance of government clients. Historically, the government departments have taken around 120-150 days for processing of lease payments of POS terminals supplied for PDS. The ratings are constrained by significant cash deposits, given for availing non-fund based (NFB) limits against 100% fixed deposits (FDs) due to delay in enhancement of working capital limits. Further, the requirement of BG limits increased significantly over the last few years as the company is required to provide BGs of 5-10% of order value covering the lease tenure for POS supply and performance bank guarantee for energy meters supply. ICRA notes the stiff competition with presence of established players in the energy meters and POS terminals and a typical competitive bidding-based system for awarding contracts.

Key rating drivers and their description

Credit strengths

Growth in revenues and operating margins – The operating income (OI) increased to Rs. 531.18 crore in FY2019 from Rs. 333.27 crore in FY2017 primarily on the back of higher sales of POS terminals and energy meters coupled with an increase in fixed lease rental income during the period. The lease and service income increased to Rs. 198.74 crore in FY2019 from Rs. 58.78 crore in FY2017 and the same is expected to continue till FY2022, as the lease agreement has a tenure of five years. The operating margins increased to 21% in FY2019 and further to ~27% in 8M FY2020 from 15% in FY2017 due to increase in lease rental income, where the margins are higher. Further, the operating margins are expected to improve with high share of lease rental income in the medium term.

Established position of Linkwell in POS terminal segment – The company started with sale of voice and data products under VISIONTEK brand. However, over the years, it has diversified into manufacturing of POS terminals and energy meters. The company derived 35% revenues from energy meters, 29% of revenues from POS terminals and 32% from lease of POS devices in FY2019. Linkwell has established relationships with a reputed customer base, which includes state discoms for energy meters and state government departments for POS terminals.

Comfortable financial risk profile – The company's financial risk profile is comfortable with gearing of 0.35 times as on September 30, 2019 and healthy coverage indicators with interest coverage of 11.6 times, NCA/TD of 105%, TOL/TNW of 0.61 times, Total Debt/OPBITDA of 0.73 times for H1FY2020 on account of low debt levels and healthy operating margins. As on September 30, 2019, the total debt of Rs 110.7 crore comprised Rs. 62.3 crore of working capital debt and Rs. 48.4 crore of term loans.

Favourable demand for energy meters and POS terminals – The demand outlook for energy meters and POS terminals is favourable with government's focus on controlling AT&C losses in various state electricity utilities and delivering state benefits to genuine beneficiaries directly biometric automation, respectively.

Credit challenges

High working capital intensity – The business is working capital-intensive with NWC/OI of 37% in H1 FY2020 owing to long receivable cycle, given the preponderance of government clients. Historically, the government departments have taken 120-150 days for releasing payments. The weak financial profile of most of the state electricity utilities further weighed on its long receivable cycle. The inventory is moderate, over the years, as it generally maintains an inventory of raw material for 45-60 days.

Significant cash margin against NFB limits – The company has availed non-fund based limits against 100% cash margin to support the BG requirements. Given the increased orders for supply of POS terminals on lease basis and orders from the energy meter segment, the company had to submit performance bank guarantee (PBG) of 10% of order value valid for three to five years. Further, with most of the orders having PBG requirements, enhancement of non-fund based limits in a timely manner is critical for its revenue growth and supporting the liquidity position of the company.

Intense competition in energy meter segment and moderate competition in POS segment – The company is exposed to stiff competition in the energy meter segment with the presence of many players. Moreover, it faces moderate competition in the POS segment with presence of a few major players. Further, the contracts are typically awarded on competitive bidding-based system to the lowest bidder constraining the profitability for the players.

Liquidity position: Adequate

LTPL's liquidity position is adequate with cash and unencumbered bank balances of Rs. 23.69 crore and undrawn working capital limits of Rs. 27.15 crore as on December 31, 2019. Moreover, its average utilisation of the fund-based limits over the 12 months period that ended in December 2019 was at 75%. The liquidity is expected to improve further with enhancement of non-fund based limits that would release the 100% cash margin submitted for availing BGs (Rs 32.59 crore is the 100% cash margin against BG as on December 31,2019). Although it has sizeable repayment obligations of Rs. 17.14 crore each in FY2021 and FY2022, the cash flows are comfortable to meet the debt repayment obligations.

Rating sensitivities

Positive triggers – ICRA could upgrade LTPL's rating if there is a sustained order book addition supporting the operating income, while maintaining profitability margins. Moreover, reduction in receivables improving the overall liquidity profile may lead to a rating upgrade.

Negative triggers – The ratings may witness a downward pressure if there is decline in operating profitability or further increase in receivables deteriorating the overall liquidity profile.

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 standalone financial profile of the company

About the company

Incorporated in 1993, LTPL manufactures voice and data products such as transaction terminals, energy meters, vehicle tracking systems and wireless modems. It is promoted by Mr. Krishna Prasad and has its manufacturing facilities located at Kushaiguda, Hyderabad. The company's products and solutions are sold under the brand name VISIONTEK, while LTPL's key clients include state distribution companies (discoms) and government departments.

Key financial indicators

	FY2018	FY2019	H1FY2020*
Operating Income (Rs. crore)	612.47	531.18	283.44
PAT (Rs. crore)	51.50	55.02	40.23
OPBDIT/ OI (%)	16.22%	21.21%	26.90%
RoCE (%)	33.88%	30.64%	30.20%
Total Debt/ TNW (times)	0.23	0.29	0.35
Total Debt/ OPBDIT (times)	0.50	0.72	0.73
Interest coverage (times)	13.71	8.52	11.56
NWC/ OI (%)	16.17%	29.45%	36.90%

** provisional; Source: Annual reports and ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 29-Jan-2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 04 Oct 2018	Date & Rating in FY2018 20 April 2017	Date & Rating in FY2017 11 April 2016
1	Fund Based Cash Credit Limits	Long Term	85.00	-	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB (Stable)
2	Fund Based Term Loan Limits	Long Term	66.40	66.40	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB (Stable)
3	Non Fund Based Limits	Short Term	185.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Unallocated Limits	Long Term/Short Term	163.60	-	[ICRA]BBB+(Positive)/A2	[ICRA]BBB+(Stable)/A2	[ICRA]BBB(Positive)/A3+	[ICRA]BBB (Stable)/A3+

Amount in Rs.crore

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit limits				85.00	[ICRA]BBB+(Positive)
NA	Term Loan Limits-1	Feb-19		Mar-20	6.40	[ICRA]BBB+(Positive)
NA	Term Loan Limits-2	Sep-19		Aug-23	60.00	[ICRA]BBB+(Positive)
NA	Non fund based limits				185.00	[ICRA]A2
NA	Unallocated limits				163.60	[ICRA]BBB+(Positive)/A2

Source: Linkwell Telesystems Private Limited

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