

January 31, 2020

UTStarcom India Telecom Pvt. Ltd.: Rating revised to [ICRA]BBB-/[ICRA]A3; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	50.0	50.0	[ICRA]BBB- (Negative)/A3; downgraded from [ICRA]BBB (Stable)/A2
Total	50.0	50.0	

*Instrument details are provided in Annexure-1

Rationale

The rating revision of UTStarcom India Telecom Pvt. Ltd.'s (UTSIPL) factors in the significant receivables build-up from the key client, i.e. Bharat Sanchar Nigam Limited (BSNL), along with the significant decline in the revenues in current financial year. As a result of build-up of receivables, the company is not taking any fresh orders from BSNL, resulting in depleting order book. ICRA also notes the company's high dependence on import of equipment and local contractual manufacturing/assembly, vulnerability to fluctuations in raw material prices, transfer pricing norms with the parent, and adverse movement in foreign currency exchange rates that led to volatility in profitability in the past, constraining the ratings. The company faces competition from global equipment manufacturers as well as domestic manufacturers, which also keeps limits profitability. ICRA notes that the part of the company's liquidity is stretched on the account of extended credit period for equipment purchase from the parent.

However, the rating continues to positively factor in the UTSITPL's track record of over 15 years of operations in the telecom infrastructure industry. The rating is also further supported by the parent entity, UTStarcom Holdings Corp (UTSHC), which has a track record of more than 25 years. The ratings factor in the support that UTSITPL derives from its parent in the form of operational linkages and financial support. The financial support is in terms of equity infusion and extended credit period on equipment supply. The rating also derives comfort from the parent's healthy cash position with the zero-debt position.

The Negative outlook on the [ICRA]BBB- rating reflects the fact that there might be further pressures on company's rating if the receivables position from BSNL does not improve. Further, ability to diversify the order book with orders from other clients apart from BSNL remains a key rating monitorable.

Key rating drivers and their description

Credit strengths

Experience in telecom infrastructure industry – UTSITPL is a subsidiary of UTSHC, which has been in the business of manufacturing products and delivering services related to telecom infrastructure for more than 25 years. The Indian entity itself has a track record of more than 15 years in the telecom infrastructure space. This has enabled the company to develop healthy relations with key clients and suppliers.

Support from UTSHC – The Indian entity derives both operational and financial support from UTSHC. The operational support is in the form of technological know-how, equipment supply, other sourcing arrangements, etc., while the financial support is in the form of extended credit period for the equipment supplied.

Credit challenges

Significant build-up in receivables from BSNL and declining revenues – The receivable levels have built-up to Rs. 534 crore in FY2019 from Rs. 202.7 crore in FY2018. However, the receivables declined to Rs. 417 crore in 6M FY2020. The revenues also declined to Rs. 49 crore in 6M FY2020 from Rs 462.40 crore in FY2019.

Weak order book – The company has been unable to timely diversify its order book, given that it is not taking any new orders from BSNL on account of build-up of receivables. UTSIPL is trying to onboard new customers and is executing some orders from TATA. However, the order book remains weak as of now.

Vulnerability of profitability to adverse fluctuation in foreign currency rates – The margins of the company are affected by foreign currency fluctuations. Since a large proportion of company's products are imported and it does not have any firm foreign currency hedging policy in place, it remains exposed to fluctuations in the same.

Liquidity position: Stretched

On account of high outstanding receivables from BSNL, the liquidity is **stretched**. However, the liquidity is aided by support from the parent company.

Rating sensitivities

Positive trigger: Since the rating has a Negative outlook, a rating upgrade is unlikely in the near term. Further, substantial reduction in the receivables from its key client, i.e. BSNL, from the level as on March 31, 2019 along with recovery in business environment might trigger a revision in outlook.

Negative trigger: Inability to diversify the order book/inability to augment the order book resulting in further decline in revenues and profitability may result in the downgrade. Moreover, further build-up of receivables from its major customers may result in downward rating revision. The ratings might be downgraded in case the interest coverage falls below 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: UTStarcom Holdings Corp. Ratings are based on support from parent company, primarily in the form of technology and extended credit period
Standalone	Standalone

About the company

UTSITPL is the Indian arm of UTSHC and is held by UTSHC through its subsidiaries – UTStarcom Inc. (which holds a 27%) and UTStarcom Hong Kong Limited (which holds a 73%). The company is involved in telecom infrastructure, including network integration, especially in optical transmission products that find application in cellular backhaul, high-speed broadband and backbone network. The key clients of the company include state-owned BSNL, ITI Limited etc.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	359.95	462.57
PAT (Rs. crore)	17.48	14.89
OPBDIT/OI (%)	5.83%	3.38%
RoCE (%)	24.32%	17.83%
Total Outside Liabilities/Tangible Net Worth (times)	2.31	3.99
Total Debt/OPBDITA (times)	-	-
Interest Coverage (times)	42.40	14.47
DSCR	44.42	13.40

Source: UTSIPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					31-January-20	13-March-19	-	-
1	Non- fund Based	Long term/Short term	50.0	-	[ICRA]BBB- (Negative)/A3;	[ICRA]BBB (Stable)/A2;	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non- fund based	NA	NA	-	50.0	[ICRA]BBB- (Negative)/A3

Source: UTS

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

K. Ravichandran

+91-44-45964301

ravichandran@icraindia.com

Gaurav Singla

+91-124-4545366

gaurav.singla@icraindia.com

Manish Ballabh

+91-124-4545812

manish.ballabh@icraindia.com

Nishant Misra

+91-124-4545862

nishant.misra@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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