

March 10, 2022

## ITI 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/Short-term – Fund Based	1295.00	2445.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed;
Long-term/Short-term - Non-fund Based	2559.34	2024.50	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
<b>Total</b>	<b>3854.34</b>	<b>4469.50</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings factors in the strong parentage with the Government of India (GoI) holding a ~90% stake in ITI Limited (ITI/the company), the vast experience of the management and a 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 December 2021, ITI had received Rs. 874 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 80 crore for FY2021-22 and Rs 200 crore for FY2022-23.

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. ITI also has a preferred supplier status among its key customers. With a strong order book of over Rs 9,734.5 crore (as of November 2021), the revenue visibility is healthy. While order executions have remained slow till 9M FY2022, the pace of execution is expected to pick up in Q4 FY2022, as has been the case historically. While the sustenance of the same remains to be seen, the company has implemented changes in its project strategies to reduce the inherent cyclicity in revenue booking.

ITI's financial performance in the last three quarters has been weak. In 9M FY2022, the company reported a net loss of Rs. 236.32 crore, while its revenues declined by ~34.5% YoY. The higher revenue share of low-margin orders and the sharp rise in operating costs, more execution and less non-booking of revenue due to delays in completion of projects had resulted in net losses in 9M FY2022. With order executions generally being stronger in the second half of the year and with the sourcing of new margin-accretive orders, the company's performance is likely to improve in Q4 FY2022. Overall, ITI's credit profile remains weak with moderate profitability and a stretched liquidity on the back of elevated working capital requirements.

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

### 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. R.M. Aggarwal, who has a vast experience in policy formulation,

standardisation planning, operation & maintenance of telecom networks in different organisations of the Department of Telecommunication (DoT). 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 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 its 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 December 31, 2021, ITI had received Rs. 874.0 crore of capital grant and the entire share of revenue grant. Apart from the grants, the GoI has extended unsecured loans and letter of comfort for ITI's working capital lines.

**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. 9,734.52 crore as of November 2021. While order executions have remained slow till 9M FY2022, the pace of executions is expected to pick up in Q4 FY2022. Commencement of execution of large projects like Ascon Phase IV is expected to improve the revenue booking over the medium term

### 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 the 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. 236.32 crore for the period ended 9M FY2022 due to lower booking of revenue and increased operating costs. While recovery is expected in Q4 FY2022 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 FY2021 and H1 FY2022 and its current order book are from Government customers. Non-Government customers include a few private banks and MITCL, GFGNL. Going forward, the company's dependence on major clients will remain high given its large order book; however, ITI remains critical for the customers too and has longstanding relations with them along with a priority quota.

### 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 and has a soft loan of Rs 300 crore from the Government. The repayment of the soft loan was slated to commence this year, but as the company is not generating sufficient cash flows, the repayment has been postponed. Also, the company has availed project-specific bank limits for ASCON Ph-IV Project along with other projects. ITI's cash and bank balance was Rs. 27.94 crore as on September 30, 2021, in addition to the encumbered bank balance of ~Rs. 519.70 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, resulting in an improvement in the liquidity position and debt coverage indicators.

**Negative factors** – Pressure on the ratings could arise if ITI’s operational profile deteriorates or if there is large decline in the cash accruals. The company’s inability to improve its working capital cycle and liquidity position will also weigh on the ratings. Further, any weakening of support or linkages with the GoI can also result in a rating revision.

## Analytical approach

Analytical Approach	Comments
<b>Applicable Rating Methodologies</b>	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Impact of Parent or Group Support on an Issuer's credit rating</a>
<b>Parent/Group Support</b>	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.
<b>Consolidation/Standalone</b>	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
Operating Income (Rs. crore)	2064.5	2365.6
PAT (Rs. crore)	147.5	11.2
OPBDIT/OI (%)	7.4%	5.1%
PAT/OI (%)	7.1%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.17	2.60
Total Debt/OPBDIT (times)	8.0	12.0
Interest Coverage (times)	1.1	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note – OPBDITA is adjusted for VRS expenses which are reimbursed by GoI as revenue grant. In reported financials Rs. 66.9 crore of VRS expenses were a part of both 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 (FY2022)			Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 29, 2020 (Rs. crore)				March 10, 2022	Dec 31, 2020	Jan 24, 2020	Dec 27, 2018	Nov 23, 2018
1	Fund-based working capital facilities	Long-term/short-term	2445.00	--	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Positive)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[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-(Positive)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3			

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short term Fund-based	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details/ Not Applicable**

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Working capital facilities	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	49.00%	Equity Method

Source: ITI annual report FY2021

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