

January 24, 2020

ITI Limited: Ratings reaffirmed; outlook revised to 'Positive' from 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short term - Fund Based	995.00	1,295.00	[ICRA]BBB- / [ICRA]A3 Reaffirmed; Outlook revised to 'Positive' from 'Stable'
Long Term / Short term - Non-Fund Based	4,484.00	2,559.34	[ICRA]BBB- / [ICRA]A3 Reaffirmed; Outlook revised to 'Positive' from 'Stable'
Total	5,479.00	3,854.34	

*Instrument details are provided in Annexure-1

Rationale

The ratings remain supported by the strong parental support with the Government of India (GoI) holding ~90% stake in ITI Limited (ITI / the company), vast experience of the management and healthy operational profile being a part of strategically important projects in the information, communication and technology (ICT) space. The ratings also favourable considers ITI's strong board composition, long-standing relationship with its clientele, and diversified product and service offerings. ITI continues to benefit from the grants received from government, as part of the financial revival package approved by Cabinet Committee on Economic Affairs (CCEA) in the year 2014. As per the approved revival plan, the total capital grant and revenue grant sanctioned by the government is Rs. 2,262 crore and Rs. 1,892.79 crore respectively. Till December 2019, ITI has received Rs. 769 crore of capex grant and entire share of revenue grant. Capex grant is used for buying capital equipment for the projects and revenue grant is received for managing operating costs and statutory obligations etc.

The revision in outlook to 'positive' considers improved financial performance during 9MFY2020 with a strong 36% YoY growth in operating income supported by new orders from government projects in addition to existing orders in hand. The company's operating profit for 9M FY2020 increased to Rs. 80.2 crore from loss of Rs. 182.7 crore in 9M FY2019 and net profit of Rs. 114.4 crore during 9MFY2020 as against net profit of Rs. 23.8 crore during 9MFY2019, a YoY growth of 380.7% turning the company's tangible networth positive. With a strong order book of over Rs 11,000 crore (as of December 2019) and pipeline orders of over Rs. 7,600 crore, revenue visibility is strong. While order executions have remained slow till H1 FY2020, the pace of executions have picked up in Q3 FY2020 (revenue up 47% YoY). While the sustenance of the same remains to be seen, the management has implemented changes in its project strategies which shall reduce the inherent cyclicity in revenue booking.

The ratings also consider ITI's weak operational cash flows and debt coverage indicators, high working capital intensity, and stretched liquidity position. ICRA notes that ITI is coming out with a follow on-public offer (FPO) shortly to meet the SEBI's requirement of maintaining minimum 25% public shareholding. Successful completion of FPO shall improve the company's liquidity position and enhances financial flexibility. The ratings also factor in the pricing pressure inherent in the ICT industry, given the competitive operating environment.

Key rating drivers and their description

Credit strengths

Long operational track record and experienced management - ITI has over seven decades of operational expertise in the manufacturing of equipment and providing services to diverse industries like telecom, defence, information technology, banks, financial institutions etc. ITI has a strong board and its operations are currently managed by Mr. R.M Aggarwal, who has a rich experience in policy formulation, standardization planning, operation & maintenance of telecom networks in different organizations of Department of Telecommunication (DoT) and is supported by a team with strong experience and 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 DoT under the Ministry of Communications. With first-mover advantage, ITI has been one of the key contractors for projects undertaken by BSNL, MTNL, Ministry of Defence, Ministry of Rural Development etc. in the last few decades. Given its strategic importance, ITI has been involved in projects of national importance (e.g. Make in India, Digital India, Smart City). Due to past losses and erosion of net worth, ITI was declared a sick company in 2004. To restore ITI's financial health, CCEA approved a fund infusion of Rs. 4,157 crore in 2014 towards revival of ITI under SICA provisions. Till December 31, 2019, ITI has received Rs. 769.0 crore of capital grant and entire share of revenue grant; of this, Rs. 105 crore was received during 9M FY2020. Apart from the grant, the GoI has extended unsecured loans and letter of comfort for ITI's working capital lines.

Strong order book position –Supported by its track record, ITI has won key projects like BharatNet Phase-II, ASCON phase IV project of Ministry of Defense, supplying of Smart Energy Meters, Network for Spectrum etc. ITI also enjoys preferred supplier status with its key customers. CCEA has approved continuation of the reservation quota for ITI by reserving 30% of the procurement orders placed by BSNL, MTNL and BBNL. With a strong order book of over Rs 11,000 crore (as of December 2019) and pipeline orders of over Rs. 7,600 crore, revenue visibility is strong. While order executions have remained slow till H1 FY2020, the pace of executions have picked up in Q3 FY2020 (revenue up 48% YoY). While the sustenance of the same remains to be seen, the management has implemented changes in its project strategies which shall reduce the inherent cyclicity in revenue booking.

Planned FPO to improve liquidity position - To meet the minimum public shareholding norm (25%) mandated by SEBI, ITI is coming out with an FPO which opens on January 24, 2020 and closes on January 28, 2020. The company plans to raise around Rs. 1,400 crore with the price band being Rs. 72-77 for its FPO. The amount shall be utilized in supporting new business initiatives and expansion plans, apart from repayment of loans, general corporate and working capital purposes. Successful completion of FPO shall support improvement in the liquidity profile and enhances the financial flexibility.

Credit challenges

Modest financial profile – ITI's financial profile is characterized by low operational cash flows, accumulated losses on the back of sharp losses in the past and high working capital intensity. Despite strong order wins, revenues and accruals were affected by project delays and deferrals. This coupled with delay in receivables resulted in tight liquidity position. The funding requirements have been largely supported by grants, which were applied for the meeting operational and capex requirements. Nevertheless, there has been a recovery in performance in recent period with improved order executions, better cost control measures, focus on receivable management and enhancement in non-fund based working capital

lines. Nevertheless, sustenance of the same will be critical for better financial profile. ITI is also looking at monetization of non-core assets, timeliness of which remains to be seen.

High working capital intensity – ITI’s operations are working capital intensive in nature and due to lumpy nature of order inflows and execution of bulk tender contracts, there is a volatility in revenue booking and earnings. Pending receivables on past orders and restricted access to bank funding results in high working capital intensity. Timely release of balance grant and successful completion of the FPO will be critical for improving the liquidity position.

High customer concentration risk – ITI’s client profile primarily include PSUs, Ministry of Defense, and other government agencies and consist of BSNL, MTNL, EESL, BBNL, Ministry of Defense, etc. Over 95% of revenues in FY2019 and current order book are from Government customers. Non-government customers include few private banks and L&T. Going forward, while the company’s dependence on major clients will remain high given its large order book; that said ITI remains critical for the customers too and has a long-standing relation and priority quota.

Liquidity position: Stretched

ITI’s utilization of working capital lines have been mostly full against the sanctioned working capital lines. This is because of the continued funding requirement on the back of working capital-intensive nature of operations and elongated receivables. The company has no term loans and has a soft loan from the Government of India of Rs. 300 crore, which does not have a defined repayment obligation and shall be repaid after the company achieves profit for three consecutive years. Cash & bank balance stood at Rs. 18.8 crore as on December 31, 2019 in addition to encumbered bank balance of ~Rs. 235.0 crore. While the liquidity position is currently stretched, with improving operating profits and the planned FPO, the position is expected to improve.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the company demonstrates strong and sustained growth in operational cash flows, better working capital management, resulting in improvement in the liquidity position and debt coverage indicators.

Negative triggers – The ratings could be downgraded if the financial profile remains constrained by lower operating profits, weak liquidity and modest debt indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group support on an Issuer’s Credit Rating
Parent/Group Support	Parent/Group Support: Government of India. The assigned rating factors in the importance that ITI holds for the government as an instrument of policy implementation, which we expect should induce the government to extend timely financial support to the rated entity.
Consolidation/Standalone	The rating is based on consolidated financial statements of the rated entity.

About the company

Incorporated in 1948, ITI Limited is engaged in the manufacturing of telecom equipment and provides solutions to telecom service providers, defence and other Government agencies. The company’s product portfolio includes GSM & CDMA products, defence products and diversified products. ITI’s service portfolio includes managed leased line

networks, standalone signaling transfer point networks, turnkey telecommunication solutions, data centers, etc. ITI's manufacturing facilities are located at Bangalore, 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 setup in the Bangalore unit with key focus areas of encryption, supervisory control and data acquisition, and wireless products.

Group Company – India Satcom Limited

ITI holds a stake of 49% in India Satcom Limited (ISL); which is not a going concern. ITI has given land and there are no related party transactions with ISL.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,422.1	1,668.4
PAT (Rs. crore)	230.6	92.5
OPBDIT/OI (%)	2.0%	-6.0%
RoCE (%)	71.5%	21.7%
Total Outside Liabilities/Tangible Net Worth (times)	Negative	Negative
Total Debt/OPBDIT (times)	53.8	Negative
Interest Coverage (times)	0.2	-0.9
DSCR	2.7	2.2

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			FY2018	FY2017
	Type	Amount Rated	Amount Outstanding*	Rating 24-Jan-2020	FY2019 27-Dec-2018	23-Nov-2018			
1	Fund based working capital facilities	Long Term/Short Term	1,295.00	994.1	[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	2,559.34	1,510.9	[ICRA]BBB-(Positive)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	-	-

Amount in Rs. Crore; Note: * as on November 30, 2019.

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	Fund based working capital facilities	20-Dec-19	10.65%	NA	1,295.00	[ICRA]BBB-(Positive)/[ICRA]A3
NA	Non-fund based working capital facilities	07-Sep-19	NA	NA	2,559.34	[ICRA]BBB-(Positive)/[ICRA]A3

Source: ITI Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
India Satcom Limited	49.00%	Equity Method

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