UTStarcom India Telecom Pvt. Ltd.

March 13, 2019

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factor in UTStarcom India Telecom Pvt. Ltd. (UTSITPL's) track record of operations in the telecom infrastructure industry of over 15 years, and its diversified product portfolio. The parent entity, UTStarcom Holdings Corp (UTSHC), has a track record of more than 25 years and the ratings factor in the support that UTSITPL derives from its parent in the form of operational linkages (sourcing arrangements, access to technology upgrades) and financial support (equity infusion and extended credit period on equipment supply). The ratings also factor in the healthy growth in operating income (OI) in FY2018 (CAGR of 54% over the last five years) as well as the healthy order book position which gives revenue visibility for the medium term. UTSITPL also enjoys robust capital structure and comfortable coverage indicators, healthy liquidity position on the back of zero debt status, healthy cash balances (Rs. 41 crore of unencumbered cash as on March 31, 2018), limited expected capex plans going forward and low working capital intensity of operations.

However, the ratings are constrained by UTSITPL's concentration of sales to a single customer – Bharat Sanchar Nigam Limited (BSNL) – which exposes it to client-concentration risks. Also, 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 constrain the ratings. The company faces competition from global equipment manufacturers, along with domestic manufacturers, which also keeps the profitability under check. ICRA notes that the part of the liquidity of the company is on account of extended credit period for equipment purchase from the parent, while the receivable levels are high, especially from Government clients. Further, given the project's nature of business, which is driven by inflow of orders, the company's revenues and the internal accrual generation can be lumpy.

Outlook: Stable

ICRA believes that the company will benefit from the experience of its promoters and register steady OI in the near to medium term given the healthy order book position. The outlook may be revised to Positive in case of substantial growth in revenues and profitability, and better working capital management, or increased support from the parent. The outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure is undertaken, in case the receivable levels elevate or the support from the parent lessens.

Key rating drivers

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.

Healthy OI growth – The OI has been growing at a healthy pace as reflected by a CAGR of more than 50% over the last five years, primarily driven by strong growth in business from BSNL. In FY2018, the company reported a growth of 165%. UTSITPL is expected to witness further improvement in the medium term, on the back of healthy order book position.

Healthy liquidity position – The absence of long-term debt, along with healthy cash balances maintained by the company (Rs. 144 crore as on March 31, 2018, out of which unencumbered cash was Rs. 41 crore) and low working capital intensity of operations, have translated into its strong liquidity position.

Low working capital intensity of operations – The overall working capital intensity of operations has remained low as reflected by NWC/OI of -7% as on March 31, 2018. Although the receivable period remains high, the same is funded by an extended credit period offered by the parent.

Nil debt levels – Zero debt levels have translated into strong capital structure. Moreover, the debt coverage indicators remain healthy.

Credit challenges

High client-concentration risk – More than 75% of the company's sales are to a single customer, BSNL. As a result, UTSITPL is exposed to client-concentration risks. Although the company has developed long-standing relationships with BSNL, which has been consistently upgrading its network, the risks remain.

Payout to parent impacts profitability – In FY2018, the company adopted a policy of compensating the parent entity for the support services rendered by the latter in the form of service charges. For FY2018, the amount stood at Rs. 21.5 crore. Going forward, the payout is expected to be on a variable payout model in which UTSITPL will retain a fixed return on revenues and the balance will be paid to USTHC. This can impact the profitability and cash generation of UTSITPL.

High receivable levels and dependence on credit period from parent – The receivable levels have remained high as Government clients take time to pay. As on March 31, 2018 the receivable days stood at 213. This, however, increased in December 2018. The stretched receivable cycle has been funded by extended credit period from the parent, which results in low working capital intensity of operations.

Vulnerability of profitability to any adverse fluctuation in foreign currency rates – The margins of the company are affected by the 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.

High competitive intensity – The competitive intensity of its business segments is high, which limits profitability. The company faces intense competition in the telecom infrastructure business from multinational players like Ericsson, Huawei, Nokia, ZTE etc., along with India-based players like Tejas Networks Limited etc.

Liquidity position

The company has a comfortable liquidity position marked by healthy unencumbered cash levels of Rs. 41 crore as on March 31, 2018, no long-term debt liabilities amid limited capex plans and low working capital intensity of business.

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
Consolidation / 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.

In FY2018, the company reported a net profit of Rs. 17.5 crore on an OI of Rs. 359.9 crore compared with a net profit of Rs. 27.6 crore on an OI of Rs. 135.8 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	135.8	360.0
PAT (Rs. crore)	27.6	17.5
OPBDIT/OI (%)	28.0%	5.8%
RoCE (%)	48.4%	24.3%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	35.7	42.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Non fund based limits	Long term/Short term	50.0	NA	[ICRA]BBB (Stable)/ [ICRA]A2	-	-	-

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	Non-fund-based limits	NA	NA	NA	50.0	[ICRA]BBB (Stable)/ [ICRA]A2

Source: UTStarcom India Telecom Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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