August 21, 2020

UTStarcom India Telecom Pvt. Ltd.: Rating reaffirmed

Summary of rating action

<table>
<thead>
<tr>
<th>Instrument*</th>
<th>Previous Rated Amount (Rs. crore)</th>
<th>Current Rated Amount (Rs. crore)</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-fund Based</td>
<td>50.0</td>
<td>50.0</td>
<td>[ICRA]BBB-(Negative)/A3; reaffirmed</td>
</tr>
<tr>
<td>Total</td>
<td>50.0</td>
<td>50.0</td>
<td></td>
</tr>
</tbody>
</table>

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the significant year-on-year decline in UTStarcom India Telecom Pvt. Ltd’s (UTSITPL) operating income in FY2020 (provisional), albeit accompanied with improvement in operating margins. Moreover, there has been some recovery of stuck receivables from Bharat Sanchar Nigam Limited (BSNL) in the current year, although a sizeable amount is yet to see movement. The rating further takes into account the gradual pick up in the company’s order book, although the same is still dominated by BSNL projects. UTSITPL’s liquidity position is aided by financial support from the parent company, UTStarcom Holdings Corp (UTSHC).

The rating continues to be constrained by 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 have led to volatility in profitability in the past. The company faces competition from global equipment manufacturers as well as domestic player, which also limits profitability. ICRA further notes the looming threat on imports from China, given the current negative sentiments about the country.

However, the rating continues to positively factor in UTSITPL’s track record of over 15 years in the telecom infrastructure industry. The rating also derives support from 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 a zero-debt position.

The Negative outlook on the [ICRA]BBB- rating reflects the current economic scenario during the Covid-19 pandemic, which has been exacerbated by the anti-Chinese sentiments across the country resulting in bans on Chinese imports. Further, progress in the receivables from BSNL and ability to diversify the order book with orders from 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.

Zero debt resulting in healthy financial profile – The company does not have any debt repayment obligations resulting in healthy capital structure and comfortable coverage indicators, characterised by strong net worth of Rs. 148.6 crore and interest coverage of 108 times in FY2020.

Credit challenges

Significant pending receivables from BSNL and declining revenues – Although there has been traction in collections from BSNL, the receivable levels remained significantly high as on March 31, 2020.

Moderate weak and concentrated order book – The order book of the company is moderately weak and stood at Rs. 75 crore as on June 30, 2020. UTSIPL is trying to onboard new customers and is executing some orders from Tata. However, the order book remains weak as of now and is still dominated by orders from BSNL.

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 the company’s products are imported and it does not have any firm currency hedging policy in place, it remains exposed to fluctuations in the same. The tender-based nature of business also results in fluctuating order inflows and consequently fluctuating revenues.

Liquidity position: Stretched

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

Rating sensitivities

Positive trigger – Since the ratings have a Negative outlook, a rating upgrade is unlikely in the near term. Further, substantial reduction in receivables from its key client, BSNL, from the level as on March 31, 2020, along with recovery in business environment may result in an outlook revision to Stable.

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

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

About the company

UTSITPL is the Indian arm of UTSHC and is held by UTSHC through its subsidiaries—UTStarcom Inc. (which holds a 27% stake) and UTStarcom Hong Kong Limited (73%). The company provides products and services for 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 entities like BSNL, ITI Limited etc.

Key financial indicators (audited)

<table>
<thead>
<tr>
<th></th>
<th>FY2019</th>
<th>FY2020 (Prov)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income (Rs. crore)</td>
<td>462.57</td>
<td>102.93</td>
</tr>
<tr>
<td>PAT (Rs. crore)</td>
<td>14.89</td>
<td>12.21</td>
</tr>
<tr>
<td>OPBDIT/OI (%)</td>
<td>7.93%</td>
<td>29.92%</td>
</tr>
<tr>
<td>RoCE (%)</td>
<td>17.83%</td>
<td>11.71%</td>
</tr>
<tr>
<td>Total Outside Liabilities/Tangible Net Worth (times)</td>
<td>3.99</td>
<td>3.46</td>
</tr>
<tr>
<td>Total Debt/OPBDITA (times)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest Coverage (times)</td>
<td>33.98</td>
<td>108.37</td>
</tr>
<tr>
<td>DSCR</td>
<td>13.40</td>
<td>50.12</td>
</tr>
</tbody>
</table>

Status of non-cooperation with previous CRA: Not applicable

Any other information: None
### Rating history for past three years

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Current Rating (FY2021)</th>
<th>Rating History for the Past 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Type</td>
<td>Amount Rated</td>
</tr>
<tr>
<td>1</td>
<td>Non-fund Based</td>
<td>Long term/Short term</td>
</tr>
</tbody>
</table>

*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 [click here](#).
Annexure-1: Instrument details

<table>
<thead>
<tr>
<th>ISIN</th>
<th>Instrument Name</th>
<th>Date of Issuance / Sanction</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Amount Rated (Rs. crore)</th>
<th>Current Rating and Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>Non- fund based</td>
<td>NA</td>
<td>NA</td>
<td>-</td>
<td>50.0</td>
<td>[ICRA]BBB-(Negative)/A3</td>
</tr>
</tbody>
</table>

Source: UTS

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