

## Press Release

### ITI Limited

August 22, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 1925.00 Cr.
<b>Long Term Rating</b>	SMERA BBB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A3

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 1925.00 crore bank facilities of ITI Limited. The outlook is '**Stable**'.

Incorporated in 1948, ITI Limited (ITIL), India's first public sector undertaking became a public limited company in 1958. The company manufactures telecom equipments including electronic switching exchanges, transmission equipments, micro electronic and telephone instruments to name a few. The company has six manufacturing facilities across India at Bengaluru (Karnataka), Naini (Uttar Pradesh), Rae Bareilly (Uttar Pradesh), Mankapur (Uttar Pradesh), Palakkad (Kerala) and Srinagar (Jammu and Kashmir) with a network systems unit at Bengaluru. Additionally, ITIL has three research and development units at Bengaluru, Naini and Mankapur.

### Key Rating Drivers

#### Strengths

- **Long track record of operations, experienced management**

ITIL is engaged in the manufacturing of telecom equipments since 1948. The company is a preferred contractor for Bharat Sanchar Nigam Limited (BSNL), Mahanagar Telephone Nigam Limited (MTNL) and Indian Defence services. The management is led by Mr. S. Gopu, Chairman and Managing Director and Mr. K. Alagesan, Director (Production) who possess more than three decades of experience in the telecom industry.

- **Support from the government of India (under revival plan)**

The government of India holds 89.89 per cent stake in ITIL. Since 2013, the government has been supporting ITIL financially as part of its revival plan for sick units. The company receives financial aid by way of planned and non-planned expenditure (operational expenses). The planned expenditure grant for project implementation (CAPEX) for upgradation of infrastructure (new projects) of Rs.2264 crore was in the form of equity in FY2014-15 while Rs. 1892.79 crore was in the form of grant-in-aid for statutory liabilities and other commitments made by ITIL. These include redemption of preferential share capital of BSNL/MTNL, arrears due to 1997 pay revision, VRS, establishment cost during the implementation of revival plan and waiver of government guarantee fee. The last revival plan was renewed in July 2017 and the next is due for revival in July 2018. Further, the Ministry of Communications and Information Technology, Department of Telecommunications and GOI have issued a letter of comfort to bankers for debt obligations of the company. ITIL has a priority quota by which 30 per cent of BSNL, MTNL and BBNL's procurements have to be met by the company. SMERA believes that ITIL will be able to revive its business and financial risk profile on the back of the ongoing support of GOI.

- **Improvement in the business risk profile**

ITIL has registered a consistent year-on-year growth during the period under study. The revenues increased to Rs. 1901.97 crore in FY2016-17 (Provisional), from Rs.1651.12 crore in FY2015-16 and Rs. 636.99 crore in FY2014-15. This is on account of orders amounting to Rs. 2984.15 crore received for Network of Spectrum (NFS) for procurement, trenching, laying, installation and maintenance of the total 13,539 Km Optical Fiber Cable Route (OFC) in West Bengal, Orissa, Bihar, Jharkhand, Sikkim among other states. The EBIDTA margins improved to 17.67 per cent in FY2015-16 from operating loss of 23.01 per cent FY2014-15. The EBIDTA margins stood at 16.26 per cent in FY2016-17 (Provisional). The improvement in profit margins is on account of reduction of employee cost as ITIL received capital grants worth Rs.155 crore for Voluntary Retirement Scheme (VRS) of 1,200 employees. SMERA believes that ITIL will maintain a stable outlook on the back of a healthy order book and committed procurement arrangement with BSNL, MTNL and BBNL.

### Weaknesses

- **Working capital intensive business**

The operations are working capital intensive on account of high debtor days. The debtor days for FY2015-16 stood at 804 compared to 1304 days in the previous year. The gross current asset (GCA) stood at 832 days for FY2015-16 as against 1348 days for FY2014-15. SMERA believes that the liquidity profile of the company will continue to be stretched due to delayed payments from clients leading to high dependency on working capital funding by the bank and financial aide from the Indian government.

- **Below average financial risk profile**

ITIL is a sick unit under Sick Industrial Companies Act. The company's tangible networth is negative as on 31 March, 2016 due to accumulated losses. The total debt of Rs. 1438.91 crore as on 31 March, 2016 comprises Rs. 300.00 crore of preference share capital, Rs. 300.00 crore loans from GOI and the remaining Rs. 838.91 crore as cash credit. The interest coverage ratio (ICR) stood at 2.68 times for FY2015-16 compared to negative ICR in the previous year. SMERA believes that with continuous support from GOI and improvement in net cash accruals, the financial risk profile of ITIL will improve in the medium to long term.

### Analytical Approach

SMERA has considered the standalone financial and business risk profiles of ITI Limited.

### Outlook: Stable

SMERA believes that ITIL will maintain a stable outlook and continue to benefit over the medium term from its long track of operations, established market position and ongoing support from the government. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and improvement in profit margins on account of successful bidding and completion of telecom projects. Conversely, the outlook may be revised to 'Negative' in case of delays in project execution leading to low profitability or deterioration in its liquidity profile.

### About the Rated Entity - Key Financials

For FY016-17 (Provisional), ITI Ltd registered profit after tax (PAT) of Rs. 304.18 crore on operating income of Rs.1903.94 crore compared to PAT of Rs.254.55 crore on operating income of Rs. 1674.92 crore in FY2015-16. Further, the networth stood negative during FY2014 to FY2016 on account of accumulated losses. .

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

**Note on complexity levels of the rated instrument**
<https://www.smera.in/criteria-complexity-levels.htm>
**Rating History (Upto last three years)**

Not Applicable

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	76.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	77.40	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	52.60	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	46.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	372.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	106.00	SMERA BBB- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	60.00	SMERA A3
Bank guarantee/Letter	Not	Not	Not	16.00	SMERA A3

of Guarantee	Applicable	Applicable	Applicable		
Letter of credit	Not Applicable	Not Applicable	Not Applicable	36.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	37.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	33.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	281.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	84.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	32.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.00	SMERA A3

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## ABOUT SMERA

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