

Press Release

ITI Limited

February 20, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 1925.00 crore bank facilities of ITI LIMITED (ITIL). The outlook is '**Stable**'.

Incorporated in 1948, ITIL, India's first public sector undertaking became a public limited company in 1958. The company manufactures telecom equipment including electronic switching exchanges, transmission equipment, microelectronic 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 system unit at Bengaluru. Additionally, ITIL has three research and development units at Bengaluru, Naini and Mankapur.

Update on FPO

The Cabinet Committee on Economic Affairs (CCEA) at its meeting held on March 21, 2018, approved the Further Public Offer (FPO) of ITIL consisting of Issue of 18 crore fresh equity shares of the face value of Rs.10 each at a price to be determined through a book building process in order to raise working capital for new projects, reduce its debt obligations and to meet SEBI's requirement of Minimum 25 per cent Public shareholding.

Additional equity shares not exceeding 5 per cent of the Fresh Issue to Public (18 Crore equity shares) will be reserved for the employees of the Company. The eligible employees and retail investors may be offered shares at a discount of 5 per cent on the Issue Price subject to the decision of FPO committee and Board. After the FPO, the Government of India will continue to hold 75 per cent of the equity shares of ITIL. The company has filed the Draft Red Hearing Prospectus in September 2018.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of ITIL to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record of operations experienced management

ITIL is engaged in the manufacturing of telecom equipment since 1948. The company is a preferred contractor for Bharat Sanchar Nigam Limited (BSNL), Mahanagar Telephone Nigam Limited (MTNL) and Indian Defence services. Mr. K. Alagesan, Director (Production), assumed additional charge as Chairman & Managing Director of the company on June 1, 2018. He possesses more than three decades of experience in the telecom industry. The management is equally supported by well qualified team of professionals.

The company has recently signed a contract with Gujarat Fibre Grid Network Limited (GFGNL) for implementing BharatNet Phase II project in one of the two packages in the state of Gujarat. It has also bagged an Advance Work Order (AWO) from BSNL for the Operation and Maintenance and sales & marketing of the passive infrastructure of 6945 BTS sites of BSNL's GSM network in UP East, UP West, Uttarkhand and Tamil Nadu circles. In addition, ITIL has also been declared as L1 in the RajNet project of the state of Rajasthan.

Acuite believes continued assistance from the government, and strong experience and technical

background of the management will continue to support the business of the company.

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

The government of India holds 90 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.

During FY2018, the company has received Rs.337 Crore as Capex funds. Out of the effective capex amount of Rs.200 Crore received during August & September 2017, Rs.189.55 Crore was already utilised for implementation of new projects which was envisaged for the year FY2018. Further, Rs.100 Crore has been allotted in budget as Capex funds for FY 2019.

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. Acuite believes that ITIL will be able to revive its business and financial risk profile on the back of the ongoing support of GOI.

Weaknesses

- **Working capital intensive business**

The operations are working capital intensive on account of high GCA days of 924 in FY2018 against 546 in FY2017. This is mainly on account of high collection period which increased to 787 days in FY2018 compared to 518 days in the previous year. Inventory holding period stood at 41 days in FY2018 against 32 days in FY2017. Company's creditor days are also stretched and increased to 1094 days in FY2018 against 925 days in FY2017. Acuite 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 aid from the Indian government.

- **Below average financial risk profile**

ITIL is a sick unit under Sick Industrial Companies Act. The company's tangible net worth is negative as on 31 March, 2018 due to accumulated losses. The total debt of Rs.1526.32 crore as on 31 March, 2018 comprises Rs.300.00 crore of preference share capital, Rs.300.00 crore loans from GOI and the remaining Rs.926.32 crore as working capital borrowings. The interest coverage ratio (ICR) stood at 2.70 times for FY2018 compared to 3.12 times for FY2017. Acuite 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.

Outlook: Stable

Acuite 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.

Liquidity

Being a sick unit, the liquidity profile of ITIL is currently under stress with highly working capital intensive nature of operations on account of increasing GCA days and below average financial risk profile. Acuite believes the liquidity of the company will remain under stress in the near to medium term on account of huge accumulated losses, however the same is expected to improve on account of continuous support from the government.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1672.60	1936.47	1651.12
EBITDA	Rs. Cr.	278.38	306.42	291.74
PAT	Rs. Cr.	235.13	305.12	251.19
EBITDA Margin	(%)	16.64	15.82	17.67
PAT Margin	(%)	14.06	15.76	15.21
ROCE	(%)	77.22	-1808.47	-339.11
Total Debt/Tangible Net Worth	Times	-2.15	-1.15	-0.86
PBDIT/Interest	Times	2.70	3.12	2.68
Total Debt/PBDIT	Times	3.70	3.11	3.42
Gross Current Assets (Days)	Days	924	546	724

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Dec-2017	Letter of Credit	Short Term	INR 36	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 10	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 30	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 1	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 37	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 33	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 1	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 281	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 28	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 8	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 18	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 5	ACUITE A3 (Reaffirmed)

	Bank Guarantee	Short Term	INR 5	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 84	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	INR 32	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 3	ACUITE A3 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	INR 42	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	INR 10	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 76	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 77.4	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 44	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 24	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 10	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 20	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 45	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 37	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 52.6	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 46	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 30	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 45	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 372	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 106	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	INR 200	ACUITE BBB- / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 60	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	INR 16	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	INR 10	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 76	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 77.4	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 44	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 24	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	INR 10	ACUITE BBB- / Stable (Assigned)
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22-Aug-2017

Cash Credit	Long Term	INR 45	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 37	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 52.6	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 46	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 30	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 45	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 372	ACUITE BBB- / Stable (Assigned)
Cash Credit	Long Term	INR 106	ACUITE BBB- / Stable (Assigned)
Proposed Cash Credit	Long Term	INR 200	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Short Term	INR 60	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	INR 16	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 36	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	INR 10	ACUITE A3 (Assigned)
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Bank Guarantee	Short Term	INR 1	ACUITE A3 (Assigned)
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Letter of Credit	Short Term	INR 33	ACUITE A3 (Assigned)
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Letter of Credit	Short Term	INR 281	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	INR 28	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 8	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	INR 18	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 5	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	INR 5	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 84	ACUITE A3 (Assigned)
Letter of Credit	Short Term	INR 32	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	INR 3	ACUITE A3 (Assigned)
Proposed Bank Guarantee	Short Term	INR 42	ACUITE A3 (Assigned)

***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	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	76.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	77.40	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	52.60	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	46.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	372.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	106.00	ACUITE BBB- /Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE BBB- /Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE A3

					(Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	281.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	84.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Manmitha Sodhi Analyst - Rating Operations Tel: 022-49294024 manmitha.sodhi@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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