Press Release

UNITED TELELINKS BANGALORE LIMITED

March 18, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.300.00 Cr.
Short Term Rating	ACUITE A2+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned short term rating of **'ACUITE A2+' (read as ACUITE A two Plus)** on the Rs.300.00 crore bank facilities of UNITED TELELINKS BANGALORE LIMITED (UTBL).

Bengaluru based United Telelinks Bangalore Limited (UTBL) incorporated in the year 1994 which is engaged in manufacturing of mobile phones under its brand name "Karbonn". The company has manufacturing facility located at Tirupati, Andhra Pradesh with an installed capacity of 350,000 mobiles per month. Further, the company is also engaged in distribution of mobile brands such as Vivo, Hawai, Realme, Samsung, Apple among others. The company is an authorized distributor in the Southern and Eastern States states such as Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, West Bengal, Assam. Further, in FY2020, the company has also initiated manufacturing of setup boxes.

Analytical Approach

Acuité has considered a standalone business and financial risk profile of UTBL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
  Bengaluru based United Telelinks Bangalore Limited (UTBL) incorporated in the year 1994 which is engaged in manufacturing of mobile phones under its brand name 'Karbonn'. The company has manufacturing facility located at Tirupati, Andhra Pradesh with an installed capacity of 350,000 mobiles per month. Further, the company is also engaged in distribution of mobile brands such as Vivo, Hawai, Realme, Samsung, and Apple among others. The company is an authorized distributor in the Southern and Eastern states such as Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nadu, West Bengal, and Assam. Further, in FY2020, the company has also initiated manufacturing of setup boxes. The company is promoted by Mr. Sudhir Hasija who has an experience of over two decades in electronic industry. The company has an operational track record of more than two decades of operations in electronic industry which has helped the company generate healthy revenue growth in FY2019 over FY2017. The company had achieved revenue of Rs.1229.62 Crore in FY2019 against Rs.969.46 Crore in FY2018. Further, the company has achieved revenues of Rs.821.50 crore in 7MFY2020. The increase in revenues is due to addition of more brands to their product portfolio. Of total revenues of Rs.1229.62 crore the company has generated 22 per cent from owned brand (Karbonn) and 78 per cent from distribution business.

  UTBL has strong association with reputed brands such as Samsung, Vivo, Honor, Realme, Apple among others. Previously the company was associated in the distribution business with 'Nokia'. Further, the company has a strong distribution network of about 250 Distributors across Southern and Eastern region of the country across 8 states in India.

  Acuité believes that UTBL shall continue to benefit from its long standing presence of more than two decades in Electronic Industry and its diversified brand portfolio is likely to result in steady stream of revenues for the company over the medium term.

- **Healthy financial risk profile**
  UTBL's financial risk profile is healthy, marked by healthy networth, leverage indicators and coverage indicators. The tangible net worth of the company stood healthy at Rs.502.50 Crore as on 31st March 2019 as against Rs.470.84 crore as on 31st March 2018. No reliance over external borrowings has led to healthy coverage indicators marked by Interest Coverage Ratio (ICR) at 82.18 times in FY2019 as against 98.68 times in FY2018. Similarly Debt service Coverage Ratio (DSCR) stood at 53.73 times in FY2019 as against 62.64 times in FY2018, and TOL/TNW Is at 0.17 times as on 31st March 2019 as against 0.25 times as on 31st March 2018. UTBL reported cash accruals of Rs.34.42 Crore against no repayment obligation in FY2019. UTBL's cash accruals are estimated to remain around Rs.46.00 – 65.00 crores during 2020-22 with no repayment obligations. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion of profits to reserves during the same period.

  Acuité believes that the financial risk profile of the company is expected to remain moderate in the near to medium term backed by healthy profitability levels and in absence of any major debt funded capex.

- **Efficient working capital management**
  UTBL's Working capital cycle is efficiently managed marked by Gross Current Assets days of 99 for FY2019 as against 118 days for FY2018. The decrease in GCA days is majorly on account of decrease in inventory days to 13 days in FY2019 from 41 days in FY2018. Further, debtor days stood at 54 days in FY2019 as against 33 days in FY2018 due to year-end sales. The company has generated revenue of Rs.328.57 crore (27 per cent of total sales) in last quarter of FY2019. The company's efficient working capital management has led to no external fund based borrowings. The company has not utilized its working capital limits from banks.

  Acuité believes that working capital cycle of the company is expected to improve owing to efficient inventory management and healthy receivable policy with diversified debtor network.

Weaknesses

- **Declining profitability margins**
  The profitability margins of UTBL has been declining since FY2017. The operating margins of UTBL has declined to 3.26 percent in FY2019 from 9.21 percent in FY2018 and 12.51 percent in FY2017. The decrease in EBITDA is majorly on account of increase in distribution business in FY2019 as compared to FY2017. Further, the company has achieved operating margins of 3.68 per cent in 7MFY2020. The distribution business contributes to ~78 per cent of total sales in FY2019 as against 25 per cent in FY2017. Similarly, the PAT margins of the company has also declined to 2.68 per cent in FY2019 as against 6.47 per cent in FY2018 and 9.55 per cent in FY2017.
  Acuité believes the company ability to maintain EBITDA margins at current levels will remain key monitorable.

- **Susceptibility of revenue from 'Karbonn' mobiles to change in consumer preferences amidst intense competition**
  The Indian market has witnessed significant turbulence in the past wherein certain players like Nokia had to relinquish their leadership positions to other players on account of their relative inability to react to technological and market related changes. Karbonn has been facing competitive pressures with respect to its market share in the feature mobile segment especially over the last 3 years due to the intense competition from domestic and Chinese players. The competitive pressure faced by Karbonn is witnessed by continuous decline in units of mobile sold in past three years. The company has sold 21 lakh units in FY2019 as against 39 lakh units in FY2018 and 69 lakh units in FY2017. However, this has led to diversification in line of business witnessed by increase revenues from distribution business which has significantly impacted the margins of the company over the years. The advent of other companies like Xiaomi, Oppo, Vivo and Oneplus have proved to be intensely competitive in terms of features and value. The ability of these companies to continuously churn out newer models with a strong value proposition for the consumer has helped these other companies gain a significant share in the mobile market at the expense of larger and small players. Due to the change in consumer preferences and increase in disposal income of the people and intense competition from other players in the market has led to the decline in the market share of Karbonn mobiles. Acuité believes the company's performance is highly dependent on market share of the brands the company is associated with. However, with revenue from the company's products sold under the brand name Karbonn' is decreasing year on year, the company's dependence on distribution business is expected to increase in the coming years.

Rating Sensitivity factors:

- Significant Improvement in revenues
- Any further decline in profitability margins

Material Covenants: None

Liquidity Position: Adequate

UTBL has adequate liquidity marked by net cash accruals of Rs.34.42 crore in FY2019 with no debt repayment obligations over the same period. The cash accruals are estimated to improve to Rs.46.00-65.00 crore during 2020-22, with no repayment obligations. The company maintains cash and bank balances of Rs.59.42 crore as on March 31, 2019. The current ratio stood moderate at 5.47 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.
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About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1229.62	969.46
PAT	Rs. Cr.	32.92	62.68
PAT Margin	(%)	2.68	6.47
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	82.18	98.68

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

Any other information

None

Applicable Criteria

- Default Recognition – https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Application of Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto 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
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	135.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2+ (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, 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.