

Press Release

United Telelinks Bangalore Limited

July 20, 2021



Rating Assigned, Ratings Reaffirmed

Total Instruments Rated*	Rs. 300.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B Plus**) and reaffirmed its short-term rating of '**ACUITE A2+**' (read as **ACUITE A Two Plus**) to the Rs. 300.00 Cr bank facilities of United Telelinks Bangalore Limited (UTBL). The outlook is '**Stable**'.

The reaffirmation of the ratings assigned to UTBL takes into account, the extensive experience of the promoters in consumer electronics industry, its established track record, reputed clientele and supplier base, healthy financial risk profile and adequate liquidity position of the company. The aforementioned strengths were tempered by the competitive nature of the consumer electronics industry, susceptibility of revenues and margins towards changing customer preferences and pace of consumer electronics industry.

About the company

UTBL is promoted by Mr. Sudhir Hasija who has an experience of over two decades in consumer electronics industry and is engaged in manufacturing and trading of mobile phones. The company was established in 1994 and based out of Bangalore. The company manufactures mobiles under its brand name 'Karbonn' from its manufacturing facility located at Tirupati, Andhra Pradesh and has an installed capacity of 350,000 mobiles per month. The company is also engaged in distribution of mobile brands such as Vivo, Oppo, Realme and HP Laptops 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. The company distributes products to retail chains operating mainly in South India like 'Poorvika Mobiles Private Limited', 'Hello Mobiles Private Limited', 'Sangeetha Mobiles Private Limited', Lot Mobiles Private Limited etc.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and own well recognized brand**

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- **Strong operating performance**

The operating performance of the company was stable in the range of Rs 1,229.62 Cr to 1,468.63 Cr over past 3 years ended FY21 (Prov) while maintaining stable operating margin around 3.2 per cent. Operating margins were in the range of 10 per cent for manufacturing and for the trading business it was in the range of 1.5 per cent. The company managed to generate around Rs 150 Cr from manufacturing and Rs 1243 Cr from trading business in FY21 (Prov) Acuite believes, the company will maintain the revenue and margin profile in future.

- **Strong brand portfolio and wide distributor network**

UTBL has strong association with reputed brands such as Vivo, Oppo, Realme and HP 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. We believe that UTBL shall continue to benefit from its long standing presence of more than two decades in consumer electronic Industry and its diversified brand portfolio is likely to result in steady stream of revenues for the company over the medium term.

- **Efficient working capital management**

UTBL's Working capital cycle is efficiently managed as observed from Gross Current Assets (GCA) days in the range of 92 to 128 days over past three years ended FY21 (Prov). GCA days increased in FY21 (Prov) primarily as a result of stretch in debtor days due to delay in collections due to COVID pandemic. 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. Acuite 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.

- **Strong Financial Risk Profile**

Financial risk profile of the company is strong as observed from the healthy net worth, strong capital structure and coverage indicators.

The net worth of the company was Rs 592.13 Cr as on FYE21 (Prov) vs Rs 522.48 Cr. The net worth has significantly improved over the past three years through FY21 (Prov) on account of healthy accretion of profits to reserves.

The company has followed a very conservative finance policy as can be observed from the peak gearing of 0.01 times over the past 3 years ending FY21 (Prov). The Total outside liabilities to net worth was in the range of 0.17 times to 0.38 times over the same period. The total debt comprised of only the finance lease.

The debt protection metrics were healthy as observed from strong Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) was in the range of 26.35 to 201.90 times and 17.11 to 154.39 times for three years ended FY21 (Prov). This is due to the steady growth in operations. Acuite believes, that the financial risk profile is expected to be at similar levels over the medium term considering the marginal size of the debt funded expansion planned in near future.

Weaknesses

- **Susceptibility of revenue towards changing customer preferences and pace of changing industry**

The smartphone industry is ever changing and improving with new technologies being developed almost every day. Further to this entry of new Chinese brands have resulted in cut throat competition in the industry. As a result of the same, company's own brand "Karbonn" has been facing turbulence. The company has shifted focus from high value products to feature phones and lower end of smart phones. The revenue from own brand was around Rs 150 Cr and Rs 140 Cr in FY21 (Prov) and FY20 respectively. Acuite believes, the company's performance is highly dependent on market share of the brands the company is associated with and the company's share of revenue from distribution business is expected to increase in the coming years.

- **Project Risk**

The company is constructing a tech park in Hyderabad, and the expected cost of the project is Rs 76.09 Cr. The company has already spent Rs 19.60 Cr towards the project for land acquisition, construction of buildings and ordering machinery. Acuite believes, considering the

strong financial risk profile and available liquid investments, the company will not face any hurdles in raising funds for the project.

Liquidity Position: Adequate

Liquidity profile of UTBL was adequate. Despite the operations of the company being working capital intensive as observed from the gross cash accruals in the range of 92 to 128 days over the past 3 years ended 2021 (Prov). The strong liquidity profile of the company is evident from the net cash accruals in the range of Rs 24.84 Cr to Rs 57.15 Cr over the past 3 years ended FY21 (Prov) with no repayment obligations. The company maintained unencumbered cash balances of Rs.18.49 Cr as on March 31, 2021. Acuite believes, that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Rating Sensitivities

- Any delay in project construction resulting in cost overruns.
- Any inorganic changes to the structure viz. mergers, acquisitions, asset sales etc.

Outlook: Stable

Acuite believes that UTBL will maintain a 'Stable' financial risk profile over the medium term backed by its experienced management, and established in South India as the major wholesaler. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its operating income while maintaining its profitability margins. The outlook may be revised to 'Negative' in case of any stretch in its working capital management or higher-than expected debt-funded investment expansion leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	1,393.41	1,468.63
PAT	Rs. Cr.	51.95	20.07
PAT Margin	(percent)	3.73	1.37
Total Debt/Tangible Net Worth	Times	0.01	0.01
PBDIT/Interest	Times	201.90	26.35

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18 March 2020	Letter of Credit	Short Term	135.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A2+ (Assigned)
	Proposed	Short Term	115.00	ACUITE A2+ (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	16.00% IRR	Not Applicable	1.00	ACUITE BBB+/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	74.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A2+ (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE A2+ (Reaffirmed)

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About Acuité Ratings & Research:

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