

हिंदी केवल एक भाषा नहीं बल्कि हमारी राष्ट्रीय पहचान है।

ITI LIMITED
(A Govt. of India Undertaking)

Ref : K/ BSE & NSE/2020



आईटीआई लिमिटेड
(भारत सरकार का उपक्रम)
12.06.2020

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400 001
Scrip Code: 523610

The Manager
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex, Bandra (E)
Mumbai- 400 051
Scrip Code: ITI

Sir/Madam,

Sub: Disclosure made by an entity identified as a Large Corporate - Clarification
Ref: SEBI circular SEBI/HO/DDHS/CIR/P/2018/144 dated November 26, 2018

With reference to the said circular, this is to inform the status of applicability of criteria of the Company for financial year 2018-19 & 2019-20 as

- i. The equity shares of the Company are listed in BSE Limited and National Stock Exchange of India Limited; and
- ii. The Company has an outstanding long term borrowing of Rs 300 Crores as on 31.03.2019 and 31.03.2020; and
- iii. The credit rating of long term borrowings is BBB+ for the financial year 2019 and 2020. Copy of the letter from Brickwork Ratings is attached as Annexure 1 & 2.

It is evident from above, that the Company does not satisfy the (iii) applicability clause of the referred circular requiring Company to have credit rating of "AA and above" for the year 2019 and 2020. Accordingly, ITI Limited does not classify to be Large Corporate Entity.

In this regard, request to take note of the above as our confirmation into your records and treat the initial disclosure made earlier vide our letter dated 29.04.2019 as withdrawn and cancelled.

Thanking you

Yours faithfully
For ITI Limited

S Shanmuga Priya
Company Secretary

Encl: as above



Rating Rationale

ITI Limited

26 April 2018

Brickwork Ratings reaffirms BWR BBB+ (Outlook - Stable)/A2 for the Bank Loan facilities of Rs. 1875.00 Crs of ITI Limited ('ITIL' or the Company)

Particulars:

Facility Rated #	Previous Limits (Rs. Crs) (Feb 2017)	Present Limits (Rs. Crs) (April 2018)	Tenure	Rating History (Feb 2017)	Rating ¹
<u>Fund Based</u>					
Cash Credit	995.00	995.00	Long	BWR BBB+ (Pronounced BWR Triple B Plus)	BWR BBB+ (Pronounced BWR Triple B Plus)
Cash Credit (Proposed)	-	150.00	Term	Outlook: Stable	Outlook: Stable
Corporate Loan	150.00*	-			Reaffirmed
<u>Non Fund Based</u>					
LC	580.00	580.00	Short	BWR A2 (Pronounced BWR A Two)	BWR A2 (Pronounced BWR A Two)
BG	150.00	150.00	Term		Reaffirmed
Total	1875.00	1875.00 (INR One Thousand Eight Hundred and Seventy Five Crores Only)			

¹ Please refer to BWR website www.brickworkratings.com for definition of the ratings

Annexure I provides details of bank wise facilities

* Corporate Loan from J&K Bank, sanctioned (in Dec 2015) but not disbursed/availed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Company upto FY17, unaudited 9MFY18 financials, publicly available information and information/clarifications provided by the Company's management.

The rating reaffirmation continues to factor the Company's position as a strategically important PSU (GoI holding of ~93%), continued financial support from Govt. of India through revival package, extensive industry experience of the management, established track record of the Company supported by its long standing relationships with reputed customers viz., BSNL, BBNL, MTNL, Indian Army etc., locational advantages, diversified product portfolio, enhanced business opportunities through GoI's 'Make in India', 'Digital India' and 'Smart City' initiatives



and the Company's plan to mobilize funds through FPO (Follow on Public Offer) in FY19. The ratings are also supported by credit enhancement in the form of Letter of Comfort issued by the Ministry of Communication & Information Technology, GoI, in favour of the Consortium Bankers of the company which states that the Department of Telecommunications will continue to ensure that ITI meets its payment obligations in a timely manner as ITI is under the administrative control of the Ministry. Ministry of Communications & Information Technology, Department of Telecommunications, GoI has regularly been issuing Letter of Comfort in favour of the consortium bankers for the entire working capital facilities enjoyed by the Company. The latest Letter of Comfort dated August 09, 2017 is valid up-to July 31, 2018. GoI is reportedly considering the matter of extending Sovereign Guarantee to ITI Limited for its bank loan facilities.

The ratings continue to be constrained by the weak standalone financial risk profile, continued operational losses, working capital intensive nature of operations due to high receivables, stretched liquidity position, high dependence on Government aid, rising prices of inputs, increasing market competition from a large number of international players and the need for continuous investment to enable the Company to keep pace with technological upgradation.

Going forward, the continued ownership and support from GoI (in the form of Letter of Comfort/Sovereign Guarantee), successful implementation of the Revival Package, achievement of targeted performance and strengthening of its overall credit risk profile would remain the key rating sensitivities.

Rating Outlook: Stable

BWR believes ITIL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

Key rating drivers

- **Experienced Management:** The Board of Directors of ITIL comprises of Mr. S. Gopu, Chairman & Managing Director, Mr K. Alagesan – Director Production, Mr. C Pradhan – Director Finance, Lt. Gen. A.R. Prasad – Signal Officer in Chief & Senior Colonel Commandant, Shri R.M. Agarwal – Director Marketing, Shri Saday Krishna Kanoria – Independent Director and Smt. Asha Kumari Jaswal – Independent Director. All the Directors and Key Management Personnel are experienced professionals. As on 31st March 2018, Government of India holds around 93% stake in the Company.

- **Established track record & strategic importance:** ITIL is India's first Public Sector Undertaking incorporated in 1948. The Company is a pioneer in the Indian Telecom equipment market with a diversified product portfolio and enjoys established relationship with reputed customers such as BSNL, BBNL, MTNL, Indian Army etc. The Company is engaged in key projects such as 'Make in India', 'Digital India', 'Smart City', 'BharatNet', 'ASCON' (Army Static Switch Communication Network Project) etc.
- **Support from Government of India:** Cabinet Committee on Economic Affairs (CCEA) had approved a financial package of 4156.79 Crs as on February 12, 2014 for revival of the Company. The financial package includes funding support of Rs 1892.79 Crs as grant-in-aid (Non-Plan Scheme) for clearing of part of ITI's liabilities and Rs 2264 Crs (Plan Scheme) towards financial assistance for project implementation. The Company receives revenue and capex grants from the Government of India (through budgetary allocation) under the approved revival package. Till date, the Company has received ~Rs. 2065 Crs (Rs. 472 Crs under Plan Scheme and ~Rs. 1593 Crs Non-Plan Scheme) under the Package. Further, GoI has regularly been issuing Letter of Comfort in favour of the consortium bankers for the entire working capital facilities enjoyed by the Company.
- **Comfortable Order Book Position:** The current order book position of the Company is ~Rs. 3671 Crs, providing revenue visibility for medium term. Further the Company is also the lowest bidder in a few tenders - MahaNet (Maharashtra BharatNet Phase II tender) for project value of ~Rs. 4000 Crs, ASCON Phase IV tender for project value of ~Rs. 8000 Crs, 3 tenders of BSNL for project value of ~Rs. 400 Crs etc.
- **Mobilisation of funds through FPO:** The Company is planning to come up with FPO (Follow on Public Offer) for 18 Crs equity shares of face value of Rs. 10 each in FY19 to meet SEBI's requirement of maintaining minimum 25% public holding. The funds are proposed to be used towards working capital requirement for the fresh projects as well as reducing the existing working capital facility from the lender consortium.
- **Below Average Financial Risk Profile:** The Company was referred to BIFR in 2004-05 and was declared a sick company, following the erosion of more than 50% of its net-worth. Further, on account of continued operational losses till FY17, the tangible net-worth position of the Company continues to be negative (though improving y-o-y). As on 31st March 2017, the revaluation reserve of the Company was Rs. 2348.31 Crs (on account of revaluation of land - Rs. 2276.11 Crs and revaluation of buildings - Rs. 72.20 Crs carried out in 2004-05).
- **Working Capital Intensive Nature of Operations:** The Company's operations remain working capital intensive on account of elongated receivables period. Further, the liquidity of the Company is stretched (Current Ratio of 0.79 times as on 31st March 2018 as against



0.53 times in FY16) on account of elongated payment cycle from its clients (mainly government enterprises).

- **High Dependence on Government Aid:** The Company continued to report operating losses till FY17. Net profits till FY17 are mainly on account of revenue grants from the government under the approved revival package.
- The Company is exposed to rising prices of inputs and increasing market competition from a large number of international players. To be competitive, there is a need for the company to continuously invest to keep pace with technological changes. .

Analytical approach

While assigning the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

About the Company

Incorporated in 1948, ITIL is India's first Public Sector Undertaking, which became a public limited company on 23rd November 1985. The Company is a pioneer in the Indian Telecom equipment market with a diversified product portfolio that includes electronic switching exchanges, transmission equipment, micro electronic equipment, telephone instruments, equipment for Defence, turnkey telecom services, ground stations for satellite communications etc. As part of the Revival Plan sanctioned by GoI, the Company is focusing on installation/upgradation of new/existing infrastructure for manufacturing of Optical Fiber cables, Optic Fibers, Encryption products for Defence, G-PON products, Smart Cards, Component Screening Projects, Solar Products, Wi-Fi Products, EVMs, etc. ITI Limited has six manufacturing units located at Bangalore, Naini, Rae Bareli, Mankapur, Pallakad and Srinagar. NFS (Network for Spectrum), ASCON (Army Static Switched Communication Network), IT services & NGN (Next Generation Network) were the key projects that contributed towards the improved performance of the Company. Other services projects like GSM (Global System for Mobile Communication), NPR (National Population Register), SECC (Socio Economic Caste Census) & APDRP (Accelerated Power Development and Reform Programme) etc. also played a vital role in augmenting the rise in turnover.

As on 31st March 2018, the Central Government (President of India) holds 92.59% of the share capital, Government of Karnataka holds 0.04% and the balance is held by Financial Institutions, Banks, Mutual Funds and Employees etc.

Financial Performance

The Company reported Total Operating Income and PAT of Rs. 1528.35 Crs and Rs. 304.88 Crs for FY17 as against Rs. 1190.58 Crs and Rs. 251.19 Crs respectively in FY16. Tangible Net-worth (excluding revaluation reserve of Rs. Rs. 2348.31 Crs) as on 31st March 2017 was Rs. (866.07) Crs against Rs. (1377.18) Crs (excluding revaluation reserve of Rs. 2354.36 Crs) as on 31st March 2016. Total debt was Rs. 1179.17 Crs as on March 31 2017. ISCR continues to be negative on account of operational losses. On a provisional basis, ITI Limited reported total turnover of ~Rs. 1701 Crs for FY18.

Key financial indicators are summarized in Annexure II.

Rating History for the last three years:

Sl No	Instrument/ Facility	Current Rating (April 2018)			Rating History/Actions with BWR		
		Type	Amount (Rs. Crs)	Rating	Feb 2017	April 2016	Jan 2015
1.	CC Proposed CC	Long Term	995.00 150.00	BWR BBB+ (Outlook: Stable) Reaffirmed	BWR BBB+ (Outlook: Stable) Reaffirmed	BWR BBB+ (Outlook: Stable) Reaffirmed	BWR BBB+ (Outlook: Stable) Assigned
2.	LC BG	Short Term	580.00 150.00	BWR A2 Reaffirmed	BWR A2 Reaffirmed	BWR A2 Reaffirmed	BWR A2 Assigned
Total			1875.00 (INR One Thousand Eight Hundred and Seventy Five Crores Only)				

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

Analytical Contacts	Media
Rajee R General Manager - Ratings analyst@brickworkratings.com	media@brickworkratings.com
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ITI Limited
(Annexure I – Details of Rated Facilities)

Name of Banks	Facilities (in Rs. Crs)			
	CC	LC	BG	CC (Proposed)
SBI (Lead Bank)	372.00	224.00	28.00	-
SBI (erstwhile State Bank of Mysore)	106.00	0.00	3.00	-
SBI (erstwhile State Bank of Hyderabad)	45.00	33.00	1.00	-
SBI (erstwhile State Bank of Patiala)	45.00	52.00	2.00	-
SBI (erstwhile State Bank of Bikaner and Jaipur)	30.00	32.00	3.00	-
SBI (erstwhile State Bank of Travancore)	37.00	3.00	18.00	-
Bank of Baroda	76.00	60.00	16.00	-
Canara Bank	77.40	8.60	10.00	-
Central Bank of India	44.00	30.00	1.00	-
Punjab National Bank	46.00	48.00	36.00	-
Vijaya Bank	52.60	29.40	6.00	-
Development Credit Bank	24.00	35.00	17.00	-
IndusInd Bank Ltd	20.00	20.00	0.00	-
Indian Bank	10.00	5.00	5.00	-
Axis Bank	10.00	0.00	4.00	-
Proposed Cash Credit	-	-	-	150.00
Sub Total	995.00	580.00	150.00	150.00
Grand Total				1875.00

(Annexure II - Key Financial Indicators)

Particulars	Unit	FY 16 (A)	FY 17 (A)
Total Operating Income	Rs. Crs	1190.58	1528.35
OPBDIT	Rs. Crs	(172.23)	(65.66)
PAT	Rs. Crs	251.19	304.88
Tangible Net-worth	Rs. Crs	(1377.18)	(866.07)
Total Debt/ TNW	Times	(0.83)	(1.36)
Current Ratio	Times	0.53	0.79



For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.



Rating Rationale

ITI Limited

31Dec2019

Brickwork Ratings reaffirms the ratings for the revised Bank Loan facilities of Rs. 3854.34 Crs of ITI Limited ('ITIL' or the Company)

Particulars:

Facility *	Amount (Rs. Cr.)		Tenure	Rating [^]	
	Previous	Present ²		Previous # (26Jun2019)	Present
<u>Fund Based</u>					
Cash Credit	995.00	1095.00	Long Term	BWR BBB+(SO)/Stable	BWR BBB+(CE)/Stable Reaffirmed
Cash Credit (Proposed)	-	200.00			
<u>Non Fund Based</u>					
Letter of Credit	580.00	545.00	Short Term	BWR A2 (SO)	BWR A2 (CE) Reaffirmed
Letter of Credit (Proposed)	500.00	300.00			
Bank Guarantee	575.34	1610.34			
Bank Guarantee (Proposed)	2828.66	100.00			
CEL ¹	-	4.00			
Total	5479.00	3854.34	(Rupees Three Thousand Eight Hundred Fifty Four Crores and Thirty Four Lacs Only)		

[^]Please refer to BWR website www.brickworkratings.com for definition of the ratings ; * Annexure I provides details of bank wise facilities; ¹ Currency Exposure Limit for Forward Contracts; ² Revision in Rating Amount is as per the latest Letter of Comfort from the Ministry of Communications, Department of Telecommunications, Government of India.

#In compliance with the revised instructions received from the Securities Exchange Board of India [SEBI] vide their circular No. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated 13.06.2019, Credit Rating Agencies are required to suffix 'CE' for instruments with external credit enhancement, which, hitherto used to be 'SO'. BWR had published press release in this regard on 14 Sep 2019.



The rating for the bank loan facilities is based on explicit credit enhancement by way of the support from the Government of India (GoI) in the form of Letter of Comfort issued by the Ministry of Communications, Department of Telecommunications, Government of India. The Letter of Comfort is issued in favour of the Consortium Bankers of the company and states that the Department of Telecommunications will continue to ensure that ITIL meets its payment obligations in a timely manner in respect of the working capital facilities, as it is under the administrative control of the Ministry. GoI has regularly been issuing such Letter of Comfort. The latest Letter of Comfort dated September 19 2019 is valid upto July 31 2022 and is issued in respect of working capital limits (fund based and non fund based including proposed limits) of Rs. 3854.34 Crs, the present rated amount. Unsupported (Standalone) rating as assessed by BWR without considering the explicit Credit Enhancement is BWR BBB/Stable/BWR A3+ .

Rating Action/Outlook:

BWR has principally relied upon the audited financials of the Company upto FY19, unaudited financials for H1FY20, publicly available information and information/clarifications provided by the Company's management.

The reaffirmation of ratings for the bank loan facilities continues to factor the Company's position as a strategically important PSU (GoI holding of ~90%), continued financial support from Govt. of India through revival package, extensive industry experience of the management and the established track record of the Company supported by its long standing relationships with reputed customers viz., BSNL, BBNL, MTNL, Indian Army etc. The rating also factors the locational advantages, diversified product portfolio, enhanced business opportunities through GoI's 'Make in India', 'Digital India' and 'Smart City' initiatives and the Company's plan to mobilize funds through FPO (Follow on Public Offer) in FY20. GoI is reportedly considering the matter of extending Sovereign Guarantee to ITI Limited for its bank loan facilities.

The ratings continue to be constrained by the weak operational cash flows, working capital intensive nature of operations due to high receivables, stretched liquidity position, high dependence on Government aid, rising prices of inputs, increasing market competition from a large number of international players and the need for continuous investment to enable the Company to keep pace with technological upgradation.

BWR believes ITIL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case there is sustained growth in revenues, profitability and operational cash flows along with improvement in liquidity position. The rating outlook may be revised to 'Negative' if there is significantly lower than anticipated growth in performance due to delays in execution of orders and deterioration in the liquidity profile, thereby impacting the debt coverage metrics and the credit profile of the company.



Key rating drivers

Credit Strengths

- **Experienced Management:** ITIL has an experienced and technically sound management. The Board of Directors of ITIL is headed by Shri R. M. Agarwal, Director- Marketing, who has taken additional charge as Chairman & Managing Director of the company w.e.f October 1, 2019. He has rich experience of more than 28 years in policy formulation, standardization planning, operation & maintenance of telecom networks in different organisations of Dept of Telecommunication and is supported by experienced professional directors. The key management personnel are well qualified and experienced professionals. As on 30 Sep 2019, Government of India holds around 90% stake in the Company.
- **Established track record & strategic importance:** ITIL is India's first Public Sector Undertaking incorporated in 1948. The Company is a pioneer in the Indian Telecom equipment market with a diversified product portfolio and enjoys established relationships with reputed customers such as BSNL, BBNL, MTNL, Indian Army, Defence etc. The Company is engaged in key projects of strategic importance such as 'Make in India', 'Digital India', 'Smart City', 'BharatNet', 'ASCON' (Army Static Switch Communication Network Project) etc. ITI has established a Start-up Hub named VINYAS at Doorvaninagar, Bangalore facility as part of diversification efforts. Eco friendly infrastructure is created for Start-ups to innovate their ideas into reality, with a 1000 seater Capacity. The company has set up testing labs in association with TEC, which would help the product companies to test their devices for mandatory certification. ITIL recently launched its cloud services and solutions platform for central and state government entities, banks, public sector undertakings, small and medium enterprises and Start Ups in India.
- **Support from Government of India:** Cabinet Committee on Economic Affairs (CCEA) had approved a financial package of Rs. 4156.79 Crs as on February 12, 2014 for revival of the Company. The financial package includes funding support of Rs 1892.79 Crs as grant-in-aid (Non-Plan Scheme) for clearing of part of ITI's liabilities and Rs 2264 Crs (Plan Scheme) towards financial assistance for project implementation. The Company receives revenue and capex grants from the Government of India (through budgetary allocation) under the approved revival package. As on 30 Sep 2019, the Company has received ~Rs. 2662 Crs (Rs. 769 Crs under Plan Scheme and ~Rs. 1893 Crs Non-Plan Scheme) under the Package. The company has used grants for capital expenditure from the GoI to modernize manufacturing infrastructure and to develop capabilities to manufacture a diverse range of information and communication products, defence security encryption products and electronic products. During the current year, Rs. 300 Cr received under the Non-Plan Scheme, has been utilised for the redemption of BSNL / MTNL preferential shares. Further, GoI has regularly been issuing Letter of Comfort in favour of the consortium bankers for the



entire working capital facilities enjoyed by the Company and has also extended unsecured loans.

- **Strong Order Book Position:** The order book position of the Company is ~Rs. 14756 Crs, as on 31 Oct 2019, including the prestigious ASCON Ph IV project of Ministry of Defence and other main projects viz. MahaNet and GujNet projects of BharatNet Phase-II, etc., providing revenue visibility for medium term. Funding of Bharatnet projects are backed by USO (Universal Service Obligation) funds worth ~Rs. 48000 Cr, which ensures timely realisation of bills. Further the Company is also the lowest bidder in a few tenders. Successful and timely implementation of such orders will be a key monitorable. The company also benefits from the GoI's Preferential Market Access policy where indigenous manufacturers are given preference in procurement by Government agencies GoI's. CCEA in Nov 2018 has approved continuation of the Reservation Quota policy for M/s ITI Ltd. by reserving 30% of the procurement orders placed by BSNL, MTNL and BBNL for M/s ITI Ltd. for the products manufactured by it and for those outsourced items in which there is a minimum 16% value addition in 2019-20 and 20% value addition in 2020-21 and 20% of the orders for the turnkey projects (like GSM network roll-out, Wi-Fi etc. of BSNL & MTNL and BharatNet project network roll-out, etc. of BBNL). MoU has been signed with DoT for 2019-20 and the turnover & profit are expected to be achieved by giving greater thrust towards manufacturing of telecommunication equipment and other emerging technology products in the broadband, IoT etc. MoU also focuses on driving the Make in India and Digital India initiatives of GoI. ITI has signed MoU with CSIR-CERI for manufacture of Lithium Ion cells. It is the only PSU which has got accreditation from NPCI for Rupay credit/debit contact card personalization. ITI has also received MasterCard certification. During October 2019, ITI entered into MOU with India Electronics & Semiconductor Association (IESA), with special focus on Telecom and allied smart electronics domains.
- **Mobilisation of funds through Follow On Public Offer (FPO):** The Company has planned to launch an FPO for 18 Crs equity shares of face value of Rs. 10 each to meet SEBI's requirement of maintaining a minimum 25% public holding. SEBI has given its approval in Jan 2019 and the FPO is expected to be open for subscription in Q4FY20. The expected proceeds are proposed to be used towards working capital requirements. The liquidity position and financial flexibility of the company are expected to improve post receipt of FPO proceeds.

Credit Challenges

- **Financial Risk Profile:** The Company is a sick company. With the financial support of Govt. through the Revival Plan, technology upgradation with capex investment through grants, significant reduction in employee & financing costs and other cost control measures, ITI has shown improvement in its turnover & profitability. Tangible networth continues to



be negative because of accumulated losses (though improving y-o-y). As on 31st March 2019, the revaluation reserve of the Company was Rs. 2334.57 Crs (on account of revaluation of land - Rs. 2272.38 Crs and revaluation of buildings - Rs. 62.19 Crs (carried out in 2005-06)). Debt coverage indicators remain weak, however, the continued funding through government grants has supported the company in its meeting its operational requirements.

- **Working Capital intensive nature of Operations:** The Company's operations remain working capital intensive on account of elongated receivables period. Further, the liquidity of the Company is stretched (Current Ratio of 0.89 times as on 31st March 2019 as against 0.87 times as on 31st March 2018) on account of elongated payment cycle from its clients (mainly government enterprises).
- **Customer concentration and technological upgradation:** The company is dependent on and derives a substantial portion of revenue from a limited number of PSU customers and other GoI entities as well as State Governments. The telecommunications technology market and telecommunications equipment manufacturing market are characterised by rapid technological changes, and if the company is unable to keep abreast of the technological changes and new product introductions, the business, results of operations and financial condition may be adversely affected. The Company is also exposed to rising prices of inputs and increasing market competition from a large number of international players. To be competitive, there is a need for the company to continuously invest to keep pace with technological changes.

Analytical approach - Standalone

ITI Ltd has a joint venture viz., India Satcom Ltd (ISL), whose financial information is included in the consolidated financial statements of the company. ISL is a stressed asset and has been taken over under the SARFAESI Act. While assigning the ratings, BWR has adopted a standalone approach and applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

Rating Sensitivities

Going forward, the continued ownership and support from GoI (in the form of Letter of Comfort/Sovereign Guarantee), implementation of the Revival Package with timeliness of funding, successful completion of FPO, achievement of targeted performance and strengthening of its overall credit risk profile would remain the key rating sensitivities.

Positive:

- Sustained improvement in revenue, profitability and receivables realisations.
- Reduction in debt levels and strengthening of financial risk profile.



Negative :

- Deterioration in revenue and profitability and/or significant delays in completion of ongoing projects with cost overrun, weakening the financial risk profile and liquidity position.
- Any significant delay in funds mobilisation through Follow On Public Offer (FPO)

Liquidity - Stretched: The company mainly relies on working capital facilities for its working capital and inventory needs. Bank limit utilization is almost full, resulting in stretched liquidity. The company has no term debt repayment obligations (except soft loan from GOI) and capex plans are mainly funded through grants from GoI. Current ratio was 0.89 times as on 31st March 2019 as against 0.87 times as on 31st March 2018 and Net cash accruals to total debt was around 0.08 times as on 31st March 2019. Cash & Cash Equivalents (mainly current account balance with banks) was ~ Rs. 19.90 cr as on 30 Sep 2019 (P). Besides this, the company had bank deposits to the tune of ~Rs. 244.39 cr as on 30 Sep 2019 (P). Timely recovery of receivables, sustained improvement in performance and successful completion of the planned FPO would be key for improving the liquidity. Operations would remain working capital intensive and timely enhancement of working capital facilities will be critical for maintaining a comfortable liquidity position.

P = Provisional

About the Company

Incorporated in 1948, ITIL is India's first Public Sector Undertaking, which became a public limited company on 23rd November 1985. ITIL is listed on NSE and BSE. The Company is a pioneer in the Indian Telecom equipment market with a diversified product portfolio that includes electronic switching exchanges, transmission equipment, micro electronic equipment, telephone instruments, equipment for Defence, turnkey telecom services, ground stations for satellite communications etc. ITI Limited has six manufacturing units located at Bangalore, Naini, Rae Bareli, Mankapur, Pallakad and Srinagar.

ITIL enjoys strong business relations with various PSUs such as BSNL, BBNL, MTNL, EESL; Ministry of Defence (MoD), Ministry of Rural Development (MoRD), Registrar General & Census Commissioner of India, among others. The company is engaged in projects of national importance such as ASCON (Army Static Switched Communication Network), BharatNet, NFS (Network for Spectrum), Smart Energy Meters, Space Programs and various E-governance projects. ISRO has chosen ITIL to carry out component screening of various parts used in its satellites and launch vehicles. ITI Limited has now become the first Public Sector Unit in the country certified for RuPay and MasterCard production and is the 'Certified Vendor' under the MasterCard Global Vendor Certification Program.

As part of the Revival Plan sanctioned by GoI, the Company is focusing on installation/upgradation of new/existing infrastructure for manufacturing of Optical Fiber cables,



Optic Fibers, Encryption products for Defence, G-PON products, Smart Cards, Component Screening Projects, Solar Products, Wi-Fi Products, EVMs, etc. NFS, ASCON, IT services & NGN (Next Generation Network) were the key projects that contributed towards the improved performance of the Company. Other services projects like GSM (Global System for Mobile Communication), NPR (National Population Register), SECC (Socio Economic Caste Census) & APDRP (Accelerated Power Development and Reform Programme) etc. also played a vital role in augmenting the rise in turnover.

ITI Limited has earned a position in the Top 50 in Fortune India's 'The Next 500' ranking for the year 2019. It figures at 39th rank on the Fortune India's list. ITI Limited won India's Best Company of the Year Award 2018 presented by International Brand Consulting Corporation in March 2019, in its industry category based on current year market standing, innovation, leadership and other such factors. It also received "Digital PSU of the Year 2018 Award".

As on 30 Sep 2019, the Central Government (President of India) holds 89.97% of the share capital, Government of Karnataka holds 0.03% and the balance is held by Foreign Portfolio Investors, Financial Institutions/ Banks, Special National Investment Fund, NBFCs etc.

Financial Performance

Key Financial Indicators - Standalone

Particulars	Unit	March 31 2018 Audited	March 31 2019 Audited
Total Operating Income	Rs. Crs	1485.35	1673.79
OPBDIT	Rs. Crs	82.57	(94.95)
PAT	Rs. Crs	230.56	92.54
Tangible Net-worth (excluding revaluation reserve)	Rs. Crs	(711.24)	(540.88)
Total Debt/TNW	Times	(2.31)	(3.10)
Current Ratio	Times	0.87	0.89

Revenue improved to Rs. 419.50 Crs in Q2FY20 against Rs 160.95 cr during Q1FY20. The low revenue during Q1FY20 was mainly due to the delay in completion of projects and billing on account of the floods and other natural calamities in different parts of the country. Due to the low revenue, the company booked a net loss of Rs.61.04 cr during Q1FY20. As such, despite booking PAT of Rs. 7.19 Crs for Q2FY20, company booked a net loss of Rs. 53.85 Cr for H1FY20. On an unaudited basis, the Company has reported operating revenue of Rs. 580.45 Crs for H1FY20



Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years:

Sl No	Facility	Current Rating (Dec 2019)			Rating History with BWR*		
		Type	Amount (Rs. Crs)	Rating	June 2019*	April 2018	Feb 2017
1.	Fund Based Cash Credit	Long Term	1095.00	BWR BBB+(CE)/ Stable	BWR BBB+(SO)/ Stable	BWR BBB+/ Stable	BWR BBB+/Stable
	Cash Credit (Proposed)		200.00				
2.	Non Fund Based Letter of Credit	Short Term	545.00	BWR A2(CE)	BWR A2(SO)	BWR A2	BWR A2
	Letter of Credit (Proposed)		300.00				
	Bank Guarantee		1610.34				
	Bank Guarantee (Proposed)		100.00				
	CEL		4.00				
Total		3854.34 (Rupees Three Thousand Eight Hundred Fifty Four Crores and Thirty Four Lacs Only)					

*Note: 1). Rating symbol changed to BWR BBB(CE) in compliance with extant regulations

2). Initial rating of BWR BBB+/A2 was assigned in January 2015 and subsequently reaffirmed in April 2016

Complexity levels of the Instrument

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- General Criteria
- Approach to Financial Ratios
- Ratings based on Government Support
- Manufacturing Companies
- Short Term Debt
- Credit Enhancement



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ITI Limited
Annexure I - Rated facilities

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	SBI (Lead Bank under the Consortium)	Cash Credit	735.00	--	735.00
		Letter of Credit	--	309.00	309.00
		Bank Guarantee	--	290.00	290.00
		CEL*	--	4.00	4.00
2	Canara Bank	Cash Credit	77.40	--	77.40
		Letter of Credit	--	8.60	8.60
		Bank Guarantee	--	435.34	435.34
3	Bank of Baroda	Cash Credit	128.60	--	128.60
		Letter of Credit	--	89.40	89.40
		Bank Guarantee	--	822.00	822.00
4	Central Bank of India	Cash Credit	44.00	--	44.00
		Letter of Credit	--	30.00	30.00
		Bank Guarantee	--	1.00	1.00
5	Punjab National Bank	Cash Credit	46.00	--	46.00
		Letter of Credit	--	48.00	48.00
		Bank Guarantee	--	36.00	36.00
6	Indian Bank	Cash Credit	10.00	--	10.00
		Letter of Credit	--	5.00	5.00
		Bank Guarantee	--	5.00	5.00
7	Axis Bank	Cash Credit	10.00	--	10.00
		Bank Guarantee	--	4.00	4.00
8	Development Credit Bank	Cash Credit	24.00	--	24.00
		Letter of Credit	--	35.00	35.00
		Bank Guarantee	--	17.00	17.00
9	IndusInd Bank	Cash Credit	20.00	--	20.00
		Letter of Credit	--	20.00	20.00
10	Proposed Facilities	Cash Credit	200.00	--	200.00
		Letter of Credit	--	300.00	300.00
		Bank Guarantee	--	100.00	100.00
Total			1295.00	2559.34	3854.34

* CEL Currency Exposure Limit for Forward Contracts



For print and digital media : The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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