ITI LIMITED
(A Govt. of India Undertaking)

आईटीआई लिमिटेड
(भारत सरकार का उपक्रम)

Ref: K/953/NSE&BSE/2023-24

Date: 08.12.2023

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

Dear Sir/Madam,

Sub: **Revision in Credit Ratings**
Ref: **Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

With reference to the captioned subject, we wish to inform that ICRA Limited vide its press release dated 06.12.2023 received on 08.12.2023, has revised the credit ratings of the Company, as under:

Product	Quantum (Rs Cr)	Long Term Rating
Long-term/Short-term – Fund based Cash Credit	2,445.00	[ICRA]D /[ICRA]D; Downgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Long-term/Short-term - Non-fund based	2,024.50	[ICRA]D /[ICRA]D; Downgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Total	**4469.50**	

The report from the Credit Rating Agency covering the rationale for revision in credit rating is enclosed.

This is for your kind information and records please.

Thanking you

Yours faithfully
For ITI Limited

Shalini Ghatak Digitally signed by Shalini Ghatak
Date: 2023.12.08 12:06:14 +05'30'

Shalini Ghatak
Company Secretary

Encl: as above

December 06, 2023

ITI Limited: Long-term/ short-term ratings downgraded to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund based Cash credit	2,445.00	2,445.00	[ICRA]D /[ICRA]D; Downgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Long-term/Short-term - Non-fund based	2,024.50	2,024.50	[ICRA]D /[ICRA]D; Downgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Total	**4,469.50**	**4,469.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade for the bank facilities of ITI Limited takes into consideration delays in debt servicing in the recent past on one of its working capital loan facilities for the months of October 2023 and November 2023, owing to poor liquidity position on account of delays in recoveries from its clients, particularly for one big order. The said order witnessed delays in execution as well which resulted in moderation in operating income as well as margins in FY2023. However, ICRA was made to believe that the revenue booking is likely to get spilled over to the current fiscal, although the same remained insufficient to result in improvement in the liquidity position of the company, leading to instances of delays in servicing of the interest amount for the cash credit facilities as well, although the same were paid within 30 days. ICRA did not receive the No Default Statement (NDS) for the months of October and November 2023. The company is expecting realization from the said project very shortly and this will be used to pay off the current outstandings, albeit with a delay. Going forward, timely completion of the projects and timely collection of the receivables and regularisation of the debt servicing will remain key monitorable.

Overall, ITI's credit profile remains weak with moderate profitability and stretched liquidity on the back of elevated working capital requirements.

Key rating drivers and their description

Credit strengths

Long operational track record and experienced management - ITI has over seven decades of operational expertise in manufacturing equipment and providing services to industries like telecom, defense, information technology, banks, financial institutions, etc. ITI's operations are currently managed by Mr. Rajesh Rai, who has a vast experience in the telecommunication industry. He is supported by an experienced team with strong technical background.

Operational and financial support from GoI - ITI is a Government-owned company with ~90% stake held by the GoI and its operations are administered by the DoT under the Ministry of Communications. With the first-mover advantage, ITI has been one of the key contractors for the projects of BSNL, MTNL, Ministry of Defense, Ministry of Rural Development, etc., in the last few decades. Given its strategic importance, ITI has been involved in Government projects such as Make in India, Digital India, Smart City.

ITI was declared a sick company in 2004 due to past losses and erosion of net worth. To restore ITI's financial health, the CCEA approved a fund infusion of Rs. 4,157 crore in 2014 under SICA provisions. Till February 2023, ITI had received Rs. 1,026 crore of capex grant and the entire share of the revenue grant. ITI also receives grant to meet the statutory liabilities for provident fund (PF) and gratuity of the employees and the same has been recorded in the P&L in FY2023.

Strong order book – ITI has won key projects like BharatNet Phase-II, ASCON Phase IV Project of the Ministry of Defence, supplying smart energy meters, network for spectrum, etc. ITI also has a preferred supplier status among its key customers. It has also bagged a Purchase Order (PO) from BSNL worth Rs 2421.49 crores for its 4G rollout. The revenue visibility remained healthy with a strong order book of over Rs. 11,460.14 crore as of June 2023.

Credit challenges

Delays in debt servicing – There has been instances of delays in debt servicing in the months of October and November owing to stretch in working capital cycle as well as moderation in cash accruals. While there have been delays in the servicing of interest on working capital facilities as well, although the same have been for a period of less than 30 days. .

Weak financial profile – ITI's financial profile is weak, characterised by low operational cash flows, accumulated losses on the back of sharp losses in the past and high working capital intensity. Despite strong order wins, the revenues and accruals were affected by project delays and deferments. This, coupled with the delay in receivables, resulted in a tight liquidity position. The funding requirements have been largely supported by grants, which were applied for to meet the operational and capex requirements.

ITI reported a net loss of Rs. 228.4 crore for H1FY2024 due to lower booking of revenue and increased operating costs. While recovery is expected in second half with improved order executions and billing, ITI's ability to control its fixed overheads and improve the collection of pending receivables etc., will be critical to improve its financial profile. The company's operations are working capital intensive and due to the lumpy nature of the order inflows and execution of bulk tender contracts, the revenue bookings and earnings are volatile. Pending receivables on past orders and restricted access to bank funding results in high working capital intensity.

High customer concentration risk – ITI's client profile primarily includes PSUs, the Ministry of Defence, and other Government agencies and consists of BSNL, MTNL, EESL, BBNL, etc. Over 95% of ITI's revenues and its current order book are from Government customers. Going forward, the company's dependence on major clients will remain high because of its large order book; however, ITI remains critical for the customers too and has longstanding relations with them along with a priority quota.

Environmental and Social Risks

ITI is exposed to the risks of tightening regulations on the environment and safety. There were no pending show cause/legal notices from the Central Pollution Control Board (CPCB)/State Pollution Control Board (SPCB) at the end of FY2023. This indicates that ITI has been able to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. ITI designs and manufactures wireline and wireless networking products, with focus on technology, innovation and R&D. The business is characterised by rapid technological changes, customer requirements, evolving industry standards and launch of products and services. Further, intellectual property (IP) is a critical element of the business. The patent rights may be overturned by its competitors which may adversely affect business and reputation. Therefore, while ITI remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now.

Liquidity position: Poor

There have been delays in the debt servicing for the month of October and November 2023 owing to elongation in working capital cycle and moderation in cash flow generation.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company demonstrates a timely debt servicing track record, supported by an improvement in the overall liquidity and the profitability on a sustained basis.

Negative factors – NA.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Policy on default recognition](#)
Parent/Group support	Parent/Group Support: Government of India The ratings derive comfort from ITI's strong parentage with majority ownership from the GoI, along with some strategic importance that ITI holds for the GoI as an instrument of policy implementation, which ICRA expects should induce the Government to extend timely financial support to the rated entity
Consolidation/Standalone	The rating is based on consolidated financial statements of the rated entity (details in Annexure-2)

About the company

ITI Limited, incorporated in 1948, is involved in manufacturing telecom equipment and providing solutions to telecom service providers, the Ministry of Defence and other Government agencies. The company's product portfolio includes GSM & CDMA products, defence products and other diversified products. ITI's service portfolio includes managed leased-line networks, standalone signalling transfer-point networks, turnkey telecommunication solutions, data centres, etc. ITI's manufacturing facilities are in Bengaluru, Uttar Pradesh, Kerala and Jammu & Kashmir. In addition to these manufacturing plants, ITI has a dedicated network system unit for the execution of turnkey projects covering installation and maintenance support activities for all its products. ITI has an R&D set-up in its Bengaluru unit with key focus areas of encryption, supervisory control and data acquisition and wireless products.

Key financial indicators (audited)

ITI Ltd Consolidated	FY2021	FY2022	FY2023	H1FY2024*
Operating income	2365.6	1,861.8	1,395.45	403.51
PAT	11.2	121.1	-360.08	-228.4
OPBDIT/OI	5.6%	6.4%	-11.00%	-25.21%
PAT/OI	0.5%	6.5%	-25.80%	-56.60%
Total outside liabilities/Tangible net worth (times)	2.6	2.6	3.0	3.2
Total debt/OPBDIT (times)	11.1	13.6	-12.2	-9.5
Interest coverage (times)	0.8	0.6	-0.7	-0.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

**Provisional*

Note – VRS expenses which are reimbursed by GoI as revenue grant are a part of both non-operating expense as well as non-operating income.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31,2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 06,2023	May 19, 2023	-	March 10, 2022	Dec 31, 2020
1	**Fund-based Cash credit**	Long-term/short-term	2445.00	-	[ICRA]D /[ICRA]D	[ICRA]BBB-(Stable)/ [ICRA]A3	-	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3
2	**Non-fund based working capital facilities**	Long- term/ short- term	2024.50	-	[ICRA]D /[ICRA]D	[ICRA]BBB-(Stable)/ [ICRA]A3	-	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short term fund-based Cash credit	Simple
Long-term/Short-term non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based Cash credit**	NA	NA	NA	2445.00	[ICRA]D /[ICRA]D
NA	**Non-fund based working capital facilities**	NA	NA	NA	2024.50	[ICRA]D /[ICRA]D

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
India Satcom Limited	49.06%	Equity Method

Source: ITI annual report FY2023

Corrigendum

Document dated December 06, 2023 has been corrected with revisions as detailed below:

Page 1 and Page 4 – Typographical errors corrected

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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