March 23, 2023

Linkwell Telesystems Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	85.00	85.00	[ICRA]A(Stable); reaffirmed
Term Loan	60.00	60.00	[ICRA]A(Stable); reaffirmed
Non-fund based limits	234.4	234.4	[ICRA]A1; reaffirmed
Unallocated Limits	120.6	120.6	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Total	**500.0**	**500.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation takes into consideration Linkwell Telesystems Private Limited's (LTPL) steady revenues, and healthy profitability in the last three years, driven by rental and service income from the point of sale (POS) terminals given on lease to various Government departments under the Direct Benefit Transfer (DBT) and other programmes. ICRA notes that the operating margin remains healthy at over ~48% during FY2021-FY2023 and is likely to remain healthy in the medium term, as these lease rentals are expected to continue for the next two to three years. However, LTPL's scale of operations remained rangebound with revenues of ~Rs. 550-600 crore during the last three to four years. The financial risk profile of LTPL was comfortable with a low gearing of ~0.1 times as on December 31, 2022, and strong debt coverage indicators, with an interest coverage of ~37 times and Total Debt (TD)/OPBDITA of ~0.3 in 9M FY2023. The liquidity position continues to remain healthy with sizeable free and unencumbered cash balances. ICRA also notes that the company is planning to enter into a new vertical in construction activities and has made a sizeable investment for land acquisition in FY2022 with its own surplus funds. Further, another large investment is expected in the near term, also to be funded via internal accruals. Any further large investments, deteriorating the overall liquidity profile, would be a credit negative.

The ratings continue to factor in LTPL's extensive track record in manufacturing energy meters and POS terminals, and a reputed customer base, which includes state power distribution companies and state government agencies. ICRA also considers the favourable demand outlook for smart energy meters, given the Government's focus on controlling aggregate technical and commercial (AT&C) losses in the power distribution segment. The demand outlook for POS terminals is also healthy with the Government's focus on delivering state benefits under the DBT programme to genuine beneficiaries directly through biometric automation. The ratings are, however, constrained by high working capital intensity of the business owing to the long receivable cycle, given the preponderance of Government clients. Further, moderate competition, especially in the energy meter segment, will keep the margins under check in that division.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that LTPL will benefit from the lease rental income and value added manufacturing products and its strong liquidity position.

Key rating drivers and their description

Credit strengths

Steady revenues and healthy operating margins – LTPL's scale remained rangebound with revenues of ~Rs. 550-600 crore over the last three to four years, which is expected to improve in the near to medium term. The operating margins remain healthy at over ~48% since FY2021 on the back of higher share of service income. Going forward, revenues as well as operating margins are expected to remain steady at current levels.

Established position of Linkwell in POS terminal segment – The company started with manufacturing of voice and data products under the VISIONTEK brand. However, over the years, it has diversified into new manufacturing products, such as

POS terminals, energy meters etc. Linkwell has established relationships with a reputed customer base, which includes state DISCOMs for energy meters and state government departments/Corporations for POS terminals.

Comfortable financial risk profile – The company's financial risk profile is comfortable with a gearing of ~0.1 times as on December 31, 2022, and healthy coverage indicators with an interest coverage of ~37 times, TOL/TNW of ~0.2 times, Total Debt/OPBITDA of 0.3 times as of 9M FY2023, on account of low debt levels and healthy operating margins. While ICRA notes that the company has made sizeable investment in land acquisition in FY2022, which is further expected to increase, the debt metrics are expected to remain comfortable, aided by healthy cash accruals. However, any considerable large investment, significantly impacting the liquidity position would be a credit negative.

Favourable demand for energy meters and POS terminals – The demand outlook for energy meters is favourable, with the Revamped Distribution Sector Scheme (RDSS) to help DISCOMs improve their operational efficiencies and financial sustainability by providing result-linked financial assistance to DISCOMs to strengthen supply infrastructure based on meeting pre-qualifying criteria and achieving basic minimum benchmarks. Besides, the Government is focused on controlling AT&C losses in various states by improving usage through the Smart Meter National Programme (SMNP). The demand outlook for POS terminals is also favourable with the Government's focus on delivering state benefits under the DBT/other Government programmes.

Credit challenges

Large investments in new vertical – The company is planning to enter into a new vertical in construction activities. In FY2022, LTPL made a sizeable investment in land acquisition for the same, along with large investment for deployment of leased assets. These investments were funded via own surplus funds. Going forward, any further large investments impacting the liquidity position will be a key monitorable.

High working capital intensity – The POS terminal and energy meter businesses are working capital intensive with NWC/OI of 28% in FY2022. In 9M FY2023, the working capital intensity was even higher at ~46% as the company was holding large inventory to fulfil orders in Q4 FY2023. In addition, the long receivable cycle, given the preponderance of Government clients, keeps the working capital intensity high. ICRA notes historically that the Government departments take 150-180 days for payment of bills, which is further accentuated by the weak financial profile of most of the state electricity utilities. However, the majority of the working capital requirements is funded by internal accruals with low reliance on working capital borrowings. In addition to the fund-based limits, there is also a significant requirement of BG limits as the company is required to provide BGs of 5-10% of the order value, covering the lease tenure for POS supply and performance guarantees for energy meters supply.

Intense competition in energy meter and POS segments – The company is exposed to intense competition in the energy meter segment from other large established players. In the POS segment, LTPL has a first-mover advantage and thus, competition is moderate. Further the contracts are awarded to the lowest bidder, constraining the profitability of the players.

Liquidity position: Strong

LTPL's liquidity position is strong, with healthy cash accruals, no major debt repayment obligations relative to its cash flow generation and sizeable free cash balances as on date. ICRA notes that the company has plans to enter into new vertical of construction, for which substantial investments have been made from its surplus funds. Despite the large investments planned, the liquidity position is likely to remain comfortable, supported by healthy cash accruals and large cash and investment balance.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if the company significantly increases its scale of operations, while maintaining its profitability and liquidity profile.

Negative factors – The ratings may be downgraded, if any substantial decline in its earnings and/or a stretch in the working capital cycle or any large capex/investments impacts the overall liquidity profile. A specific trigger for a downgrade will be RoCE < 16%, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]()
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

Note (for analyst reference only):

About the company

Incorporated in 1993, LTPL manufactures voice and data products such as POS terminals, energy meters and wireless modems. The company has a range of products in the energy meter and POS segments. It is promoted by Mr. Krishna Prasad and its manufacturing facilities are located at Kushaiguda and Cherlapally, Hyderabad. The company's products and solutions are sold under the brand name, VISIONTEK, while LTPL's key clients include state DISCOMs and Government departments.

Key financial indicators (audited)

LTPL Standalone	FY2021	FY2022	9m FY2023
Operating income	588.8	556.5	480.7
PAT	177.0	165.4	159.0
OPBDIT/OI	48.7%	48.2%	48.6%
PAT/OI	30.1%	29.7%	33.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.3	0.2
Total debt/OPBDIT (times)	0.4	0.4	0.3
Interest coverage (times)	30.4	21.2	37.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 23, 2023	April 07, 2022	April 02,2021	-	Jan 29,2020
1	Cash Credit	Long-term	85.0	85.0	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Positive)
2	Term Loan	Long-term	60.0	14.1	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Positive)
3	Non Fund Based Limits	Short term	234.4	-	**[ICRA]A1**	[ICRA]A1	[ICRA]A2+	-	[ICRA]A2
4	Unallocated Limits	Long-term /Short-term	120.6	-	**[ICRA]A (Stable)/ [ICRA]A1**	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A(Stable) /[ICRA]A2+	-	[ICRA]BBB+ (Positive)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Non Fund Based Limits	Very Simple
Unallocated Limits	Not applicable

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	Cash Credit	-	8.6%	-	85.0	[ICRA]A(Stable)
NA	Term Loan	FY2020	8.6%	FY2024	60.0	[ICRA]A(Stable)
NA	Non Fund Based Limits	-	-	-	234.4	[ICRA]A1
NA	Unallocated Limits	-	-	-	120.6	[ICRA]A(Stable)/[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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