CareEdge RATINGS

HTL Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	152.96	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	10.00	CARE A-; Stable / CARE A2+	Revised from CARE A-; Stable
Long Term / Short Term Bank Facilities	90.00	CARE A-; Stable / CARE A2+	Revised from CARE A2+
Short Term Bank Facilities	200.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings for the bank facilities of HTL Ltd (HTL) factors in strategic importance of HTL to its parent – HFCL Ltd (rated 'CARE A; Stable/CARE A1'), and the strong management, operational and financial linkages it has with HFCL, besides the demonstrated support it has received from its parent entity in the past, which is expected to continue going forward as well.

Currently, HTL contributes about 50% of the current OFC cable capacity of the group on a consolidated level which leads to 14% of income share by HTL in HFCL's consolidated income in FY24 and 20% in FY23). HTL's presence, hence, is critical for HFCL in maintaining its market share in the OFC cable segment. HFCL is expected to continue to support HTL any financial support including the corporate guarantees (CGs) for its upcoming capex plans as the case may be.

Further, rating considers continued support from HFCL Ltd including corporate guarantee given for all the bank facilities availed by HTL Ltd. The ratings further consider HTL's comfortable operating and financial profile over the years and increased contribution from other than OFC products. The ratings are, however, constrained by global demand slowdown, volatility in input costs and prevalent competition in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial Improvement in the credit profile of Parent entity – HFCL Ltd.
- Improvement in the standalone financial risk profile of HTL and its contribution to HFCL Ltd.'s consolidated topline, and profitability goes beyond 30%

Negative factors

- Any Deterioration in credit profile of parent entity – HFCL Ltd.
- Reduction in shareholding by HFCL in HTL Ltd or reduced support in the form of financial assistance or offtake.
- Deterioration in the standalone financial risk profile of HTL Ltd with margins dipping below 10% on sustained basis.

Analytical approach: Standalone

Standalone financials of HTL have been considered factoring in strong operational, financial and management linkages with parent company HFCL Ltd (CARE A; Stable/CARE A1)

Outlook: Stable

Stable outlook assigned to HTL facilities reflects the likelihood of HTL to maintain its healthy operational and financial performance over the medium term amid a favourable demand scenario in the telecom sector.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Strategic importance and strong operational linkages with parent
HTL is strategically vital to HFCL Limited, engaging in the manufacturing of telecom products as part of HFCL's backward integration. Both companies share common business relationships, with 40-50% of HTL's revenue derived from sales to HFCL Ltd, indicating strong economic integration. In FY24 (April 1 to March 31), HTL's Revenue and PBILDT contributed 14% (FY23: 20%; FY22: 16%) and 12% (FY23: 17%; FY22: 14%) respectively, to HFCL's consolidated figures. HTL accounts for about ~50% of HFCL's OFC cable capacity on a consolidated level. Operationally, HTL benefits from centralized management of raw material procurement, production, marketing, and finance functions, leveraging HFCL's scale. HFCL owns 74% of HTL, with two directors, including Chairman and Managing Director Mr. Mehandra Nahata, on HTL's board. HFCL supports HTL through equity infusions and unsecured borrowings as needed and has extended a corporate guarantee for HTL's debt, with plans to continue such support for future borrowings. Thus, HTL remains both strategically and operationally integral to HFCL.

Comfortable operational and financial risk profile amidst moderation in FY24
HTL has experienced significant growth in its total operating income over the past few years, nearly doubling from Rs 643 crore in FY21 to Rs 1266 crore in FY23, the topline however moderated in FY24 to Rs 844 crore owing to global slowdown in OFC demand. While the company's coverage indicators have shown year-on-year deterioration, they are expected to improve with a projected demand recovery in FY25. Despite the recent moderation, HTL's financial risk profile remains comfortable, with a net worth of Rs. 171 crores in FY24 (previous year: Rs. 142 crore). The overall gearing also remains comfortable at 1.06x in FY24 (previous year: 1.18x).
Additionally, HFCL Ltd and the Reliance group are the primary off takers of OFC from HTL, together contributing approximately 84% of the total revenue. This strong customer base, coupled with anticipated industry demand recovery, HTL is expected to register improvement in its operational performance and overall financial risk profile in the medium term.

Key weaknesses

Intense competition in the industry
The demand in cable business is majorly dependent on the operational/capital expenditure from telecom companies. Any delay or deferral of such expenditure would impact revenue visibility of companies catering to this business. Further HTL is making efforts to expand its product basket and also foray into exports where large-sized global players have established presence and the stiff competition in that segment may limit its pricing flexibility.

Susceptibility to raw material price volatility
The company is focused on gaining traction in new geographies and value-added services to mitigate pricing pressure in relatively commoditised OF/OFC segment. The company is a backward integration for manufacture of OFC, FTTH and other specialised cables. Majority of company's production is of OFC and thus remains susceptible to the volatility in the prices of raw materials which are procured from external sources. The company is insulated against the volatility in optical fibre prices partially due to the backward integration but still remains susceptible to the volatility in the prices of other raw materials which are procured from external sources and time lag in pass through of escalated costs.

Liquidity: Adequate
The standalone liquidity profile of HTL is adequate with Cash & Bank balance of Rs 20.43 crore which are lien marked Fixed deposits. However, expected cash accruals for next two years are in the range of Rs. 60-80 crores against this scheduled debt repayment of Rs 41.7 crores and Rs. 35.11 crore each for FY25 and FY26. Further, company has unutilised cash credit (CC) limit of approximately Rs 40 crore as on June 30, 2024. The liquidity of HTL Ltd also derives comfort from corporate guarantee given by HFCL Ltd and MN ventures Pvt Ltd for all the bank facilities availed by HTL Ltd. HFCL shall timely support Incase required for any operational, capex or debt repayment perspective given the strategic importance of HTL to HFCL Ltd.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on Default Recognition
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Manufacturing Companies
Short-Term Instruments

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Other Telecom Services

HTL (formerly Hindustan Teleprinters Limited) was incorporated on 14th December 1960 in Chennai, as a wholly owned Government Company to manufacture teleprinters and ancillary equipment. In the year 2001, HFCL acquired 74% equity stake in HTL Ltd under the divestment policy of Government of India and 26% equity stake in the Company is still retained by Government of India. HTL has set up a plant for OFC manufacturing in Chennai with a capacity to manufacture 11.88 million Fiber Km of cables per annum and FTTH capacity of 270K cable Km per annum. The Company also has manufacturing facility for Fibre Reinforced Plastic Rod (FRP), Impregnated Glass Fibre Reinforcement (IGFR) & Aramid/Kevlar Rods at Hosur in Tamil Nadu.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY24 (UA)
Total operating income	1,265.39	844.29	155.00
PBILDT	146.93	93.43	NA
PAT	64.95	28.57	NA
Overall gearing (times)	1.18	1.06	NA
Interest coverage (times)	4.21	2.85	NA

A: Audited; UA: Un-audited; NA: Not available;

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30-09-2025	56.32	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	30-06-2030	96.64	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	10.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-Working Capital Limits		-	-	-	90.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	198.00	CARE A2+
Non-fund-based - ST-Forward Contract		-	-	-	2.00	CARE A2+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	56.32	CARE A-; Stable	-	1)CARE A-; Stable (21-Jul-23)	1)CARE A (CE); Stable (06-Jul-22) 2)CARE A (CE); Stable (14-Apr-22)	1)CARE A (CE); Stable (29-Mar-22) 2)CARE A- (CE); Negative (07-Jul-21)
2	Non-fund-based - ST-BG/LC	ST	198.00	CARE A2+	-	1)CARE A2+ (21-Jul-23)	1)CARE A2+ (CE) (06-Jul-22) 2)CARE A2+ (CE) (14-Apr-22)	1)CARE A2+ (CE) (29-Mar-22) 2)CARE A2 (CE) (07-Jul-21)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST	90.00	CARE A-; Stable / CARE A2+	-	1)CARE A2+ (21-Jul-23)	1)CARE A2+ (CE) (06-Jul-22) 2)CARE A2+ (CE) (14-Apr-22)	1)CARE A2+ (CE) (29-Mar-22) 2)CARE A2 (CE) (07-Jul-21)

4	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	-	-	-	1)Withdrawn (21-Jul-23)	1)CARE BBB+ / CARE A2 (06-Jul-22) 2)CARE BBB+ / CARE A2 (14-Apr-22)	1)CARE BBB+ / CARE A2 (29-Mar-22) 2)CARE BBB- / CARE A3 (07-Jul-21)
5	Non-fund-based - ST-Forward Contract	ST	2.00	CARE A2+	-	1)CARE A2+ (21-Jul-23)	1)CARE A2+ (CE) (06-Jul-22) 2)CARE A2+ (CE) (14-Apr-22)	-
6	Fund-based - LT-Term Loan	LT	96.64	CARE A-; Stable	-	1)CARE A-; Stable (21-Jul-23)	-	-
7	Fund-based - LT/ ST-Working Capital Limits	LT/ST	10.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (21-Jul-23)	-	-
8	Non-fund-based - ST-BG/LC	ST	-	-	1)Withdrawn (02-Sep-24)	1)CARE A2+ (21-Jul-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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