CareEdge RATINGS

HFCL Limited

September 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,256.19 (Enhanced from 1,000.34)	CARE A-; Stable	Downgraded from CARE A; Stable
Short-term bank facilities	2,386.63 (Enhanced from 2,131.63)	CARE A2+	Downgraded from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CareEdge Ratings) has downgraded ratings assigned to bank facilities of HFCL Limited (HFCL) from CARE A; Stable/ CARE A1 to CARE A-; Stable/ CARE A2+. The downgrade factors in continued moderation in the company's credit profile, primarily due to lower-than-expected operating profitability considering subdued demand for optical fibre cables and delay in commencement of O&M revenues from the Network for Spectrum (NFS) project. Credit metrics also weakened in FY25, with net debt/earnings before interest, taxation, depreciation, and amortisation (EBITDA) rising significantly in FY25 to 4.85x from 2.57x in FY24 considering higher working capital requirement and decline in operating profitability during the year. While profitability is expected to improve year-on-year (y-o-y) with recovery in OFC demand and commencement of NFS O&M revenues, leverage is likely to remain at elevated levels over the next two years given the ongoing debt-funded capex and continuous higher working capital requirements. The credit profile further remains exposed to high working capital intensity with working capital cycle increased to 214 days in FY25 from 198 days in FY24, susceptibility to raw material price volatility, intense industry competition, and execution risks from large-sized/tender-based orders.

However, ratings continue to derive strength from HFCL's established track record, experienced management team, and its strong and diversified order book position which provides revenue visibility. The company has a broad product portfolio and customer base across telecom, defence, and infrastructure, with its presence further supported by exemption from anti-dumping duties in the European market, giving it a competitive edge. Liquidity is assessed as adequate, backed by free cash balances and expected accruals; further comfort is drawn from HFCL's demonstrated ability to raise funds through qualified institutional placements (QIP) and preferential issues in the past years. Demand of optical fibre cables also starts picking up from Q1FY26 which is expected to further gain momentum going forward which should enable the company to improve its scale and profitability. Going forward, the company's ability to capitalise on growth opportunities from 5G rollout, BharatNet Phase III, and hyperscale data centre expansion, while improving profitability, rationalising working capital cycle, and improving leverage, will remain a key rating monitorable going forward.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantially improving scale of operations, capital structure and coverage indicators, with net debt (including acceptances) to profit before interest, lease rentals, depreciation, and taxation (PBILDT) below 3x on a sustained basis.
- Improving average collection period to less than 100 days on a sustained basis.
- Improving PBILDT margins above 13% on a sustained basis.

Negative factors

- Substantially declining operating profitability due to global supply–demand mismatch, which could result in operating margin sliding below 10% on a sustained basis.
- Slower-than-anticipated realisation of outstanding debtors having an impact on the company's liquidity profile.
- Total debt (including acceptances) to PBILDT exceeding 4.20x on a sustained basis beyond FY26 end.

Analytical approach: Consolidated

CareEdge Ratings has considered a consolidated view of HFCL Limited and its subsidiaries owing to significant business, operational, financial, and management linkages between the parent and subsidiaries. List of entities consolidated are listed in Annexure – 6.

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Outlook: Stable

The 'Stable' outlook reflects CareEdge Ratings' expectation that HFCL will continue to maintain its established competitive position in the OFC segment and benefit from sectoral tailwinds, including ongoing telecom capex and expansion of data centres. The company's sizeable order book, including large orders under the BharatNet project, provides healthy revenue visibility.

Detailed description of key rating drivers:

Key strengths

Long and established track record with highly experienced management team and strong association with RJIL

HFCL benefits from the leadership of Mahendra Nahata, Managing Director, who brings over 35 years' experience in the telecom sector. He also serves on the board of Reliance Jio Infocomm Limited (RJIL) since 2010 and is actively involved in different industry forums. He is supported by a team of senior professionals with extensive experience across their respective domains, strengthening the company's overall management. The company enjoys a long-standing association with RJIL, having been responsible for network planning, design, and implementation for its northern region since the inception of its rollout. RJIL contributed ~63% of HFCL's revenue in FY18 and accounted for 26% in FY25, reflecting greater revenue diversification. Going forward, with increasing project executions in the northern region and rising 5G adoption, HFCL is expected to benefit from sustained business opportunities with RJIL.

Strong order book providing revenue visibility and diverse customer base

As on June 30, 2025, HFCL holds a robust consolidated order book of ₹10,480 crore, representing 2.57x of its FY25 turnover, up from ₹7,685 crore (1.72x of FY24 turnover) as on March 31, 2024. This strong order pipeline ensures healthy revenue visibility over the medium term. The company has diversified its revenue in turnkey segment and product segment entailing OF/OFC, telecom equipment and defence products and has also been awarded new contracts for telecom systems supply and implementation services from RVNL, RJIL, and BSNL among others. HFCL's order book is well-diversified across segments, products, and client types, with ~82% from government entities and the remaining 18% from private clients. Segment-wise, ~28% of the order book pertains to products, ~38% to network services, and ~34% to operations and maintenance (O&M) contracts. Notably, the defence segment contributes ~12%, while exports account for ~4% of the total order book. HFCL has secured ~₹5000 crore orders under Bharat Net Phase III, execution of which has started from Q2FY26. Timely execution of Bharat net project without strain on its working capital will remain a key monitorable going forward.

Established relationship with reputed clients

HFCL has established long-standing relationships with reputed corporate houses in public and private sectors. Apart from telecom projects, HFCL has expanded its business and became leading material supplier and turnkey contractor for defence and railway communication projects. Turnkey contract and service business segment normally deals in the capex projects by different companies and government, hence, derives single high value orders from few customers and longer execution period. In the product segment, the company has been broadly expanding its customer in domestic and international market. As a strategic partner for RJIL, HFCL is executing communication network projects in north India for rolling out of backbone and backhaul of OFC and FTTH network. Reliance group contributes ~26% of the company's total revenue in FY25 (PY: ~29%) followed by BSNL which contributes ~21% of the total revenue (PY: ~16%). Apart from these major clients, the company also has business relationship with other reputed clients such as Larsen & Tourbo, RVNL, and Vodafone among others.

Key weaknesses

Moderation in operational and financial risk profile

HFCL's operating and financial profile weakened in FY25, with total operating income (TOI) declining ~9% to ₹4,076 crore from ₹4,474 crore in FY24 and ₹4,762 crore in FY23. The decline was mainly due to ~39% drop in turnkey revenues, as private telecom operators curtailed capex and the Network for Spectrum (NFS) project, a key revenue contributor, reached completion. Revenue from optical fibre cables also fell to ₹1,183 crore in FY25 (₹1,602 crore in FY24; ₹2,355 crore in FY23), reflecting industry-wide demand weakness, elevated inventories, and subdued operator investments. In contrast, the product segment grew ~33% year-on-year (y-o-y), supported by bulk orders from RJIL and BSNL, partially offsetting the decline. EBITDA margins moderated to 11.31% in FY25 (FY24: 13.20%), impacted by a higher share of lower-margin product revenues, weak cost absorption in the OFC business, and ongoing fixed expenses from the NFS project, for which O&M revenues are yet to begin. Q1FY26 performance also remained subdued, with TOI at ₹871 crore (down ~25% YoY) and EBITDA margin at 3.26%. Early signs of OFC demand recovery, a strong order book, and expected commencement of NFS O&M revenues from October 2025 are likely to support its revenue profile and operating margins in H2FY26 which remains a key monitorable.

The capital structure moderated in FY25 as overall gearing increased to 0.62x (PY: 0.40x), driven by higher working capital borrowings. Debt protection metrics weakened, with PBILDT interest coverage at 2.49x (PY: 3.87x) and net debt/PBILDT rising to 4.85x (PY: 2.57x), reflecting reduced profitability and higher borrowings. Leverage is expected to remain high even in FY26 with planned term debt of ~₹350–370 crore in FY26 for capex and long-term working capital. Sustained improvement in profitability, timely recovery of receivables, and prudent working capital management will remain a key credit monitorable.

High working capital intensity leading to elevated reliance on bank borrowings and inter-corporate deposits
HFCL's operations continue to remain highly working capital intensive, primarily considering elongated receivables and elevated inventory levels in the EPC segment. The operating cycle stretched to 214 days in FY25 (FY24: 198 days), led by longer collection and inventory periods. Gross debtors declined to ₹2,302 crore as on March 31, 2025 (PY: ₹2,736 crore); however, the average collection period extended to 223 days (PY: 203 days) due to lower scale and averaging effects. ~53% of debtors are from strong counterparties such as BSNL, L&T Limited, and RJIL mitigating counterparty risk, while the balance remains well diversified. Adjusted for ₹1,460 crore of not-due receivables, the average collection period was at 95 days (PY: 88 days).

Inventory days rose to 85 in FY25 (PY: 72 days), while unbilled revenue increased to ₹652 crore (PY: ₹377 crore) and security deposits surged to ₹421 crore (PY: ₹5 crore). Consequently, short-term borrowings rose to ₹1,725 crore in FY25 (PY: ₹1,226 crore), with average fund-based utilisation at a high ~89% in the 12 months ended May 2025. Non-fund based utilisation also remained elevated at ~83%, reflecting heavy reliance on guarantees for EPC contracts. Creditor days increased to 94 (PY: 78), providing partial support to liquidity. Debtor levels improved to ₹2,117 crore as of June 2025; however, sustained rationalisation of receivables and inventory, with efficient execution of large orders, will remain critical monitorable from a liquidity and credit perspective.

Project risk
HFCL plans to incur a capex of ~₹325-350 crore in the next two years which includes ₹130 crore to the capacity expansion of intermittently bonded ribbon (IBR) cables from ~1.73 million FKM to ~19.01 million FKM which will take total optical fibre capacity to ~42.36 million FKM, ₹50 crore to expansion for defence equipment manufacturing in Hosur, Tamil Nadu, ₹70 crore to enhance OF capacities and ₹35 crore to enhance the capacity of equipment related to optical fibre to support the production of high-density cables at its manufacturing plants in Goa and Hyderabad apart from the minor routine capex. The capex is proposed to be funded through ~₹250–270 crore of term debt, with the balance from internal accruals and available liquidity. While these projects are expected to strengthen HFCL's product portfolio and market positioning, they expose the company to execution and funding risks. Timely completion without cost or time overruns, and the ability to derive anticipated benefits, will remain critical monitorable from a credit perspective.

Intense competition in the industry and susceptibility to raw material price volatility
The demand for cables is closely linked to the operational and capital expenditure cycles of telecom operators, making revenues susceptible to delays or deferrals in their spending plans. The EPC segment also remains highly competitive due to the presence of multiple players. While HFCL is diversifying its product portfolio and expanding in exports, it faces established global competitors, limiting pricing flexibility in international markets. However, the company is seeking to offset this risk by focusing on new geographies, value-added offerings, and differentiation in the relatively commoditised OF/OFC segment. Optical fibre remains the key raw material for HFCL, for which the company has achieved partial backward integration. With expansion of OF capacities from 10 million FKM to 24.94 million FKM, HFCL can now meet its entire internal requirement, reducing exposure to price volatility in this segment. It continues to remain vulnerable to fluctuations in other externally sourced raw materials and potential time lags in passing on cost escalations to customers.

Liquidity: Adequate
HFCL's liquidity position is assessed as adequate, supported by expected cash accruals of ~₹240–250 crore in FY26 against scheduled debt repayments of ~₹125 crore. The company had a free cash and bank balance of ₹116 crore as on March 31, 2025 (excluding ~₹58 crore raised through QIP), providing additional cushion. Planned capex of ₹325–350 crore over the next two years is proposed to be funded through ~₹250–270 crore of term debt, ~₹60 crore from available liquidity, and the balance from internal accruals. Accordingly, cash generation is expected to remain sufficient to meet capex, debt servicing, and working capital requirements. However, the company's debt repayment obligations stood high at ~₹230-240 crore in FY27 and FY28. HFCL's ability to increase internal accruals going ahead to meet high repayments in FY27 and FY28 will remain a key rating monitorable HFCL's operations remain working capital intensive. The operating cycle stretched to 214 days in FY25 from 198 days in FY24, largely due to higher receivables, while inventory and unbilled revenues also tied up funds. Average utilisation of fund-based working capital limits remained elevated at ~89% in the 12 months ended May 2025, reflecting high reliance on external

borrowings. Efficient rationalisation of receivables and tighter working capital management will be critical to sustain liquidity strength going forward.

Environment, social, and governance (ESG) risks

HFCL recognises the importance of environmental sustainability and continues to invest in minimising its environmental impact. For a greener tomorrow, the company undertakes several initiatives under the areas of energy, water and waste management. **Environmental:** Achieved a 13% reduction in annual energy consumption and an 9% reduction in total waste generation in FY25 on a y-o-y basis. Installed Sewage Treatment Plants (STPs) with capacities of 35 KLD/Day at Hyderabad and 30 KLD/Day Goa facilities. Transitioning from conventional microwave lamps to LED UV variants, resulting in a reduction of 5,022 metric tonnes of emissions and saving 6.2 million units of energy annually. 14001-certified Environmental Management System, which ensure the high standards of sustainable practices.

Social: HFCL engages in different healthcare, education, elderly care, and societal welfare programs. They operate nine mobile medical units with HelpAge India and Wockhardt Foundation, providing preventive healthcare in remote areas. They partner with the National Heart Institute and St. Stephen's Hospital for heart and corrective surgeries for the underprivileged. Under Project Samarth, they offer educational grants to specially-abled children and computer skills training to underprivileged youth. They promote digital learning through smart classrooms and have established a facility for over 100 abandoned elderly individuals. HFCL also supports elderly care through the Amritam Charitable Trust and provides food and shelter for stray animals.
Governance: HFCL's governance framework provides direction for responsible and credible conduct across its operations. The board has five committees (audit, nomination, remuneration and compensation, stakeholder relationship, CSR and risk management) that support the board's decision-making processes. The board committee consists of one executive director, two non-executive director and three independent directors.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Telecommunication	Telecommunication	Telecom - Equipment and accessories	Telecom - Equipment and accessories

HFCL (erstwhile Himachal Futuristic Communications Limited) was incorporated 1987 to set up a plant in Solan (Himachal Pradesh) for assembling telecom equipment. The company is an established leader in offering fully integrated communication network solutions. It manufactures OF, OFC, cable accessories and high-end telecom transmission and access equipment and specialises in providing turnkey solution to telecom service providers, railways, defence, smart city and surveillance projects. As on June 30, 2025, the company has OF capacity of 24.94 mn fkm and OFC capacity of 25.60 mn fkm.

Brief Financials (₹ crore)	FY24 (A)	FY25 (A)	Q1FY26 (UA)
Total operating income	4474.03	4076.49	871.02
PBILDT	590.52	460.96	28.40
PAT	337.52	173.26	-29.30
Overall gearing (times)	0.38	0.57	NA
Interest coverage (times)	3.87	2.49	0.51

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	615.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	31/01/2031	641.19	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	2386.63	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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	641.19	CARE A-; Stable	-	1)CARE A; Stable (30-Aug-24)	1)CARE A; Stable (07-Jul-23)	1)CARE A; Stable (06-Jul-22)
2	Fund-based - LT-Cash Credit	LT	615.00	CARE A-; Stable	-	1)CARE A; Stable (30-Aug-24)	1)CARE A; Stable (07-Jul-23)	1)CARE A; Stable (06-Jul-22)
3	Non-fund-based - ST-BG/LC	ST	2386.63	CARE A2+	-	1)CARE A1 (30-Aug-24)	1)CARE A1 (07-Jul-23)	1)CARE A2+ (06-Jul-22)
4	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-23)	1)CARE A; Stable (06-Jul-22)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	HTL Limited	Full	Subsidiary
2	Raddef Private Limited	Full	Subsidiary
3	Moneta Finance Private Limited	Full	Subsidiary
4	HFCL Advance System Private Limited	Full	Subsidiary
5	Polixel Security Systems Private Limited	Full	Subsidiary
6	Dragonwave HFCL India Private Limited	Full	Subsidiary
7	HFCL Technologies Private Limited	Full	Subsidiary
8	HFCL B.V Netherlands	Full	Subsidiary
9	HFCL Inc. USA	Full	Subsidiary
10	HFCL Canada Inc.	Full	Subsidiary
11	Blue Diwali Sp. Zoo	Full	Subsidiary
12	HFCL UK Limited	Full	Subsidiary
13	Nimpaa Telecommunications Private Limited	Moderate	Associate
14	BigCat Wireless Private Limited	Moderate	Associate

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

Contact us

Media Contact Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	**Analytical Contacts** Ravleen Sethi Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Anant Agarwal Associate Director **CARE Ratings Limited** Phone: 91-120-4452000 E-mail: Anant.Agarwal@careedge.in Sanchit Agarwal Assistant Director **CARE Ratings Limited** E-mail: sanchit.agarwal@careedge.in

About us:

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