Himachal Futuristic Communications Limited

January 23, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	588.36	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	1281.20	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total	**1,869.56 (Rupees One Thousand Eight hundred Sixty Nine crore and Fifty Six Lakh only)**		
Long Term Instrument - Non Convertible Debentures	33.73	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings of the bank facilities and instrument of Himachal Futuristic Communications Limited (HFCL) continues to take into account the improved financial risk profile in FY18 (refers to the period April 01 to March 31) as reflected in its strong revenue growth and comfortable capital structure & coverage indicators. The ratings reaffirmation further factors in the strong order book which provides medium-term revenue visibility and the successful exit of the company from the CDR mechanism. The ratings continue to derive strength from its experienced promoters and management team, long track record of operations and strategic business relationship with Reliance Jio Infocomm Limited (RJIL). The ratings, however, remain constrained by its moderate profitability margins, high receivables leading to elongated operating cycle and its susceptibility to the regulatory oversights governing the telecom sector.

Going forward, the ability of the company to profitably scale-up its operations improving its operating cycle, maintaining its capital structure and the execution of the capex project for manufacturing of Optic fibre in a timely manner within the envisaged cost, shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance in FY18

During FY18, the company registered a growth in operating income of 52.6% to Rs. 3100.09 crore from Rs. 2032.03 crore in FY17. The growth was primarily driven by increased revenue from RJIL (rated CARE AAA; Stable/CARE A1+), its major customer and also due to spill over of revenues from FY17 as the revenue booking for FY17 was deferred to Q1FY18 due to non/less availability of field workers post demonetisation and partially due to delay in release of some of the orders by customers. PBILDT margin, however decreased marginally to 9.46% in FY18 from 9.68% in FY17 primarily due to higher cost of materials consumed viz. optic fibre. The coverage indicators, although remained comfortable with interest coverage at 4.03x as on 31-Mar-18 (PY: 3.09x). Moreover, capital structure stood strong with overall gearing of 0.35x as on Mar 31, 2018 (PY: 0.48x). Total debt decreased from Rs.493.98 crore as on Mar 31, 2017 to Rs.423.88 crore as on Mar 31, 2018 owing to repayment of term loans and preference shares. The liquidity profile stood stable with current ratio of 1.67x as on 31-Mar-18 (PY: 1.83x) along with cash and liquid investments of Rs.119.19 crore as on 31-Mar-18 (includes Rs.98.13 crore held as margin money).

In H1FY19, total income from operations increased by 53.72% to Rs 2169.71 crore from Rs 1411.51 crore in H1FY18 on account of growth in both the segments (Telecom Products & Turnkey Contracts and Segments). PBILDT margins decreased slightly to 7.92% in H1FY19 as against 8.56% in H1FY18 due to foreign exchange variations.

Increase in order book with revenue visibility

As on 30th Sep 2018, HFCL has a strong order book totalling Rs. 10,200 crore (including Advance Purchase Orders of Rs 3190 crore) vis-à-vis order book of 7428.92 crore as on Mar 31, 2018. Total order book of Rs 10,200 crore which is ~3.3 times FY18 revenues lends comfortable medium-term revenue visibility.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Long and established track record with highly experienced management team and strong association with RJIL
Mr Mahendra Nahata, the managing director of the company, has a business experience of more than thirty five years in telecom. He is also on the Board of RJIL since 2010 and is associated with various forums related to the industry. He is assisted by the management team comprising of officials who are highly experienced in their respective domains. The chairman of the board, Mr MP Shukla, has over five decades of experience in the telecom industry and had worked at senior positions in various undertakings owned by the Government of India. The company also has a strong association with RJIL, with HFCL being responsible for execution of RJIL's network expansion plans for the Northern region. HFCL has been associated with them since the network roll out of RJIL was started and has been responsible for network planning, design and implementation of its network for the Northern region.

Bullish Optic Fibre Cable (OFC) Demand & Government initiatives spurring broadband outreach
The requirement for fibre will increase multifold once telcom operators move completely from 3G to 4G (which is still work in progress) and further to 5G. The demand is fueled by the move towards fibre-to-home services. Under the ambitious Bharat Net programme, the government plans to lay underground optic fibre cables to connect over 2,50,000 gram panchayats across the country by the end of 2019. In order to capitalize on the rising demand of fiber the company is setting up a backward integration facility in the state of Telangana for manufacturing of optic fiber.

Successful CDR exit
During 2004 and 2011, HFCL has undergone debt restructuring. As part of the CDR-exit formalities, the recompense amount of Rs.148.47 crore was approved by lenders as well as the statutory auditors in March 2016 for coming out of CDR mechanism. The company has completed all the formalities related to the exit from CDR mechanism. The CDR Cell vide its letter dated 1st Sep 2017 informed HFCL about its successful exit from the CDR mechanism.

Key weaknesses

Elongated operating cycle
HFCL, continues to have an an elongated operating cycle owing to higher collection period as compared with industry peers. Although, the operating cycle improved from 169 days in FY17 to 111 days in FY18 owing to decrease in collection period from 197 days in FY17 to 139 days in FY18, it still remains on the higher side. As on 31st Mar 2018, the receivables stood at Rs 1234.13 crore (PY: Rs 1147.16 crore) which includes retention money of Rs 204.64 crore. The collection period has improved primarily due to some of the large projects nearing completion/completed which led to release in payments from customers.

Capex Project
HFCL is setting up a backward integration facility with overall project cost envisaged at Rs. 223.64 crore with proposed debt equity of 1.7:1. The plant is being set up in the state of Telangana for the manufacturing of optic fiber (a raw material for optic fiber cable) with an annual capacity of 6.4 Mn fkm (Million Fibre Kilometre). The optic fiber produced from the proposed project will be consumed captively by company's OFC manufacturing facilities at Goa & Chennai. Execution of the capex project in a timely manner and within the envisaged cost shall remain critical for the company.

Liquidity
HFCL has moderate liquidity position with average working capital utilisation of 83.10% in the last 12 months ended 30th Sep 2018. However, the current ratio remained comfortable at 1.67x as on 31st Mar 2018 (vs. 1.83x as on 31st Mar 2017). The company also had cash & cash equivalents of Rs 119.19 crore (includes margin money of Rs 98.13 crore) as on 31st Mar 2018. The company will also avail project specific limits which will be available for the complete duration of the project.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short-term Instruments]
[CARE's methodology for financial ratios (Non-Financial Sector)]
[CARE's methodology for Factoring Linkages in Ratings]

About the Company
HFCL (CIN: L64200HP1987PLC007466) was incorporated in the year 1987 to set up a plant in Solan (Himachal Pradesh) for manufacturing of telecom equipment. Subsequently, the company has ventured into various segments viz. Optical Fibre Cable (OFC) manufacturing in 1997 by setting up a plant at Goa and commenced rendering turnkey services in 1998.

Under the turnkey services, the company provides and implements projects for complete site infrastructure for mobile operators, satellite & radio communication, optical transport networks and spectrum management solution and has worked for various private and government operators including major GSM vendors.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,032	3,100
PBILDT	197	293
PAT	126	154
Overall gearing (times)	0.48	0.35
Interest coverage (times)	3.09	4.03

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact
Name: Mr Gaurav Dixit
Tel: 011-45333235
Mobile: 9717070079
Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Sep 30, 2022	275.36	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	313.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	1281.20	CARE A2+
Debentures-Non Convertible Debentures	28-Mar-2017	10.30	Sep 30, 2021	29.50	CARE A-; Stable
Debentures-Non Convertible Debentures	02-June-2017	10.30	Sep 30, 2021	4.23	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	275.36	CARE A-; Stable	1)CARE A-; Stable (03-Jul-18) 2)CARE A-; Stable (25-Jun-18)	1)CARE BBB+; Negative (26-Jul-17)	1)CARE BBB+ (06-Sep-16)	1)CARE BBB+ (12-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	313.00	CARE A-; Stable	1)CARE A-; Stable (03-Jul-18) 2)CARE A-; Stable (25-Jun-18)	1)CARE BBB+; Negative (26-Jul-17)	1)CARE BBB+ (06-Sep-16)	1)CARE BBB+ (12-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	1281.20	CARE A2+	1)CARE A2+ (03-Jul-18) 2)CARE A2+ (25-Jun-18)	1)CARE A2+ (26-Jul-17)	1)CARE A2+ (06-Sep-16)	1)CARE A2+ (12-Oct-15)
4.	Debentures-Non Convertible Debentures	LT	33.73	CARE A-; Stable	1)CARE A-; Stable (25-Jun-18)	-	-	-
5.	Preference Shares-Cumulative Redeemable Preference Shares	LT	60.38	CARE BBB+ (RPS); Stable	1)CARE BBB+ (RPS); Stable (03-Jul-18)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691