

## Himachal Futuristic Communications Limited

June 25, 2018

### Ratings

| Facilities                                              | Amount<br>(Rs. crore)                                                                                            | Rating <sup>1</sup>                                     | Rating Action                                                                |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------------------------|
| Long term Bank Facilities                               | 455.57                                                                                                           | CARE A-; Stable<br>(Single A Minus;<br>Outlook: Stable) | Revised from CARE<br>BBB+; Negative<br>(Triple B Plus; Outlook:<br>Negative) |
| Short term Bank Facilities                              | 890.00                                                                                                           | CARE A2+<br>(A Two Plus)                                | Reaffirmed                                                                   |
| <b>Total</b>                                            | <b>1,345.57</b><br><b>(Rupees One Thousand Three<br/>hundred Forty Five crore and Fifty<br/>Seven Lakh only)</b> |                                                         |                                                                              |
| Long Term Instrument –<br>Non Convertible<br>Debentures | 33.73                                                                                                            | CARE A-; Stable<br>(Single A Minus;<br>Outlook: Stable) | Assigned                                                                     |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities and instrument of Himachal Futuristic Communications Limited (HFCL) takes into account the improvement in its 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 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).

##### **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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

CDR mechanism. The company has completed all the formalities related to the exit from CDR mechanism. The CDR Cell vide its letter dated 1<sup>st</sup> Sep 2017 informed HFCL about its successful exit from the CDR mechanism.

#### ***Increase in order book with revenue visibility***

As on 31<sup>st</sup> Mar 2018, HFCL has a strong order book totalling Rs. 7428.92 crore (firm orders to the tune of Rs 3344.62 crore and orders under release having value of Rs. 4084.30 crore) vis-à-vis a confirmed order book of Rs 2443 crore as on May 31, 2017. Total order book of Rs 7428.92 crore which is ~2.5 times FY18 revenues lends comfortable medium-term revenue visibility.

#### ***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.

#### ***Key weaknesses***

##### ***Elongated operating cycle***

HFCL, continues to have 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 31<sup>st</sup> 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.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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  | 205.57                        | CARE A-; Stable                           |
| Fund-based - LT-Cash Credit           | -                | -           | -             | 250.00                        | CARE A-; Stable                           |
| Non-fund-based - ST-BG/LC             | -                | -           | -             | 890.00                        | 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              | 205.57                         | CARE A-; Stable | -                                         | 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              | 250.00                         | CARE A-; Stable | -                                         | 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              | 890.00                         | CARE A2+        | -                                         | 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 | -                                         | -                                         | -                                         | -                                         |

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