Himachal Futuristic Communications Limited

July 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	588.36 (enhanced from 455.57)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	1281.20 (enhanced from 890.00)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total	**1,869.56 (Rupees One Thousand Eight hundred Sixty Nine crore and Fifty Six Lac only)**		
Long Term Instrument – Non Convertible Debentures	33.73	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term Instrument - Cumulative Redeemable Preference Shares	60.38	**CARE BBB+ [RPS]*; Stable (Triple B Plus [Redeemable Preference Share]; Outlook: Stable)**	**Assigned**

Details of instruments/facilities in Annexure-1

**The rating assigned to the Cumulative Redeemable Preference Shares of HFCL is one notch lower to the bank facilities due to the subordinated nature of the instrument to bank debt.*

Detailed Rationale & Key Rating Drivers

The rating assigned to the Redeemable preference shares & rating reaffirmation for the bank facilities and NCD instrument 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] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 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.

Increase in order book with revenue visibility

As on 31st 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 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.

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.*

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About CARE Ratings:

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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
Cumulative Redeemable Preference Share	-	6.5	Mar 31, 2019	60.38	CARE BBB+ [RPS]; 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 (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 (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+ (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.	Cumulative Redeemable Preference Share	LT	60.38	CARE BBB+ [RPS]; Stable	-	-	-	-

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