

Himachal Futuristic Communications Limited

July 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	515.94	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	1398.36 (enhanced from Rs. 1281.20 cr)	CARE A2+ (A Two Plus)	Reaffirmed
Total	1914.30 (Rupees One thousand three hundred and fourteen crore and thirty lakhs)		
Long Term Instrument - Non Convertible Debentures	33.73	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term Instrument – Cumulative Preference Shares	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Himachal Futuristic Communications Limited (HFCL) 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 rating also takes into account comfortable financial profile marked by significant growth in total operating income in FY19 (refers to the period April 01 to March 31) and comfortable capital structure along with strong order book which provides medium-term revenue visibility.

The ratings, however, remain constrained by high receivables leading to elongated operating cycle, counter-party risks and its susceptibility to the regulatory oversights governing the telecom sector. Further, CARE notes that most of BSNL projects that the company takes are funded directly by Ministry of Defence or Home Ministry.

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 both the capex projects in a timely manner within the envisaged cost, shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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 (rated CARE AAA; Stable/ CARE A1+), 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.

Strong order book providing revenue visibility and diversifying customer base

As on March 31, 2019, HFCL has a strong order book totalling Rs. 11325.63 crore (firm orders to the tune of Rs. 7429.57 crore and orders under release having value of Rs. 3896.06 crore) which is ~2.57x of FY19 total revenue (including O&M orders of Rs. 1643.47 crore).

The management has been diversifying its customer base by focusing on PSU contracts which have potential business with 'Digital India' programme of GoI. The current order book as on March 31, 2019, includes more than 65% of the order from Defence and BharatNet. Going forward, the company has a healthy mix of orders across segments such as OFC, telecom, railway, defence, O&M, smart city etc. The order book is also well diversified with revenue stream across geographies such as Punjab, J&K, Rajasthan, Uttarakhand, Himachal Pradesh, Uttar Pradesh, Delhi, Chhatisgarh, Madhya Pradesh, Andhra Pradesh, Telangana etc.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Comfortable financial profile marked by significant growth in total operating income and comfortable capital structure

The total operating income of HFCL on a consolidated basis reported growth of 47% in FY19 to Rs. 4778.96 crore vis-à-vis Rs. 3245.59 crore in FY18. The growth was primarily driven by factors like high value of executed orders and significant improvement in the HTLs performance on account of increased production capacities (from 3.5 Mn fkm to 7 Mn fkm). The PBILDT margins improved marginally at 9.52% in FY19, however the PAT margins moderated to 4.86% in FY19.

Further, the capital structure of HFCL continues to remain strong with overall gearing of 0.52x as on March 31, 2019. The total debt as on March 31, 2019 increased to Rs. 590.31 crore mainly due to increase in Intercompany deposits (ICD) and working capital borrowing to Rs. 418.74 crore. Further, outstanding CRPS of Rs. 60.38 crore have been fully redeemed as on March 31, 2019. The other coverage indicators improved in FY19 with interest coverage at 4.95x (PY: 4.74x) and total debt to GCA at 1.96x (PY: 2.27x).

Bullish Optic Fibre Cable (OFC) Demand & Government initiatives spurring broadband outreach

Government and Private Operators are investing substantial capital in upgrading telecom infrastructure. National Digital Communication Policy, 2018 sets aggressive 2022 targets with broadband for all. Only 20% of sites in India are fiberised, a number that needs to go up to 80-85% to support 5G and its enabling technologies IoT, M2M. Even 4G needs fiberisation upto 60-65% of sites. Shift from wireless to Optical Fibre is taking place in a gradual and mammoth manner. Fibre spread and its densification shall ensure fibre reaches the doorstep of consumers. With 4G on rise and 5G on the anvil, microwave-based backhaul will become less effective. Nearly 70% of the India's towers will need to be fiberized by 2022 from the current levels of sub-25% requiring an estimated 600,000 fkm, at an investment of \$8 billion

Also, there is a significant untapped potential still left in the rural space and with government's renewed focus on developing rural telecom infrastructure to use telecom services to effectively reach out to the real beneficiaries of its various welfare schemes. Furthermore, with Smart Cities Mission and Digital India Initiative, the requirement of network infrastructure at integration as well as end-user points is expected to rise. One of the projects under the 'Digital India' initiative is 'BharatNet', launched to deploy high-speed optical fiber cables to connect 2.58 lakh Gram Panchayat across the country by end of 2019. This project would also help in increasing the fiberized sites in India which currently stands at less than 20% as compared to other developed countries. Also, 'Smart Cities', 5G deployment, Machine to Machine (M2M), Internet of Things (IoT) require advanced information technology and connectivity landscape. Further, next generation technologies such as LTE and FTTx, which require last mile connectivity, would also propel the demand for optical fiber cables.

Key weaknesses**Elongated operating cycle, albeit improved in FY19**

HFCL's operating cycle has improved from 100 days in FY18 to 67 days in FY19 owing to decrease in collection period from 134 days in FY18 to 106 days in FY19; however, it still remains on the higher side. The collection period has improved on account of change in the composition of order book of company in favor of system integration contracts which unlike the other contracts being executed by the company during FY17 and FY18 (NFS Defence NFS and GSM Network LTE), have shorter gestation period coupled with lesser statutory and retention money stipulations. As on March 31, 2019 the receivables stood at Rs. 1562.89 crore which includes debtors more than 6 months of Rs. 436.51 crore.

Ongoing capex

HFCL is setting up a green field manufacturing facility of Optic Fiber with an annual capacity of 6.4 Mn fkm (Million Fibre Kilometre). The entire produce from the proposed project will be consumed captively by company's OFC manufacturing facilities at Goa and Chennai. The project is being setup in Ranga Reddy District in the state of Telangana with an overall project cost of Rs. 275.10 crore to be funded in the debt equity ratio of 1.05:1 i.e., promoters' contribution/internal accruals of Rs. 134.16 crore (including State and Central subsidy of Rs. 55.57 crore) and Bank Debt of Rs. 140.94 Cr.

As on May 31, 2019, 53% of the total project cost has been incurred. The project is proposed to achieve Commercial Operation Date (COD) of January 2020.

Further in HTL, there is ongoing capex to expand the current manufacturing capacity from 7 Mn fkm to 10.5 Mn fkm by adding new machineries and add additional cable accessories assembling lines and new products. The overall project cost is estimated to be Rs. 40 crore to be funded in the debt equity ratio of 1:1; term loan of Rs. 20 crore and balance through internal accruals of HTL. The project is expected to achieve COD by September 2019.

Liquidity

HFCL has moderate liquidity position with average utilization of working capital facilities and non-fund based facilities at 69.69% and 81.10% respectively in the last 12 months ended May 2019. However, the current ratio remained comfortable at 1.47x as on March 31, 2019 (vs 1.59x as on March 31, 2018). The company also had cash and cash equivalents of Rs. 193.03 crore (includes margin money of Rs. 181.83 cr) as on March 31, 2019. The company will also avail project specific limits which will be available for the complete duration of the project.

Analytical approach: Consolidated.

Companies considered in consolidated financials:

Name of Subsidiary Company	% of share Holding
HTL Limited	74%
Polixel Security Systems Private Ltd	100%
Moneta Finance (P) Ltd	100%
HFCL Advance Systems (P) Ltd	100%
Name of Joint-Venture Company	
DragonWave HFCL India Private Limited	49.90%

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](#)

[Policy on Withdrawal of ratings](#)

About the Company

HFCL was incorporated in the year 1987 to set up a plant in Solan (Himachal Pradesh) for assembling 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. HFCL earns majority of income from turnkey services (71% in FY19). Under sale of telecom equipments, HFCL manufactures and sells telecom equipment in Optical, Wireless, and Wireline technologies (like 2G and 3G Repeaters, Broadband, etc).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3245.59	4778.95
PBILDT	301.36	455.00
PAT	171.70	232.26
Overall gearing (times)	0.49	0.52
Interest coverage (times)	4.74	4.95

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

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	-	-	July 31, 2027	215.94	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	300.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	1398.36	CARE A2+
Debentures-Non Convertible Debentures	March 28, 2017	10.30%	Sep 30, 2021	29.50	CARE A-; Stable
Debentures-Non Convertible Debentures	June 2, 2017	10.30%	Sep 30, 2021	4.23	CARE A-; Stable
Preference Shares-Cumulative Redeemable Preference Shares	-	6.50%	Mar 31, 2019	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	215.94	CARE A-; Stable	-	1)CARE A-; Stable (23-Jan-19) 2)CARE A-; Stable (03-Jul-18) 3)CARE A-; Stable (25-Jun-18)	1)CARE BBB+; Negative (26-Jul-17)	1)CARE BBB+ (06-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	300.00	CARE A-; Stable	-	1)CARE A-; Stable (23-Jan-19) 2)CARE A-; Stable (03-Jul-18) 3)CARE A-; Stable (25-Jun-18)	1)CARE BBB+; Negative (26-Jul-17)	1)CARE BBB+ (06-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	1398.36	CARE A2+	-	1)CARE A2+ (23-Jan-19) 2)CARE A2+ (03-Jul-18) 3)CARE A2+ (25-Jun-18)	1)CARE A2+ (26-Jul-17)	1)CARE A2+ (06-Sep-16)
4.	Debentures-Non Convertible Debentures	LT	33.73	CARE A-; Stable	-	1)CARE A-; Stable (23-Jan-19) 2)CARE A-; Stable (25-Jun-18)	-	-
5.	Preference Shares-Cumulative Redeemable Preference Shares	LT	-	-	-	1)CARE BBB+ (RPS); Stable (03-Jul-18)	-	-

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:

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.

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