Himachal Futuristic Communications Limited

July 26, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	455.57 (enhanced from Rs. 410.91 crore)	**CARE BBB+/Negative (Triple B Plus; Outlook: Negative)**	**Revised from CARE BBB+ (Triple B Plus)**
Short term Bank Facilities	890 (enhanced from Rs.450 crore)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total	**1,345.57 (Rupees One Thousand Three hundred Forty Five crore and Fifty Seven Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for Himachal Futuristic Communications Limited's (HFCL) continue to derive strength from experienced promoter and management team, long track record of operations and healthy order book position. The ratings also consider the comfortable capital structure and advancement towards exit from Corporate Debt Restructuring (CDR).

The ratings, however, remain constrained by the decline in revenue and profitability in FY17 (refers to the period April 01 to March 31), moderation in liquidity profile owing to increase in collection period due to change in customer mix towards government/public sector enterprises and regulatory aspects governing the telecom sector.

Going forward, continuation of profitable scale-up of operations, maintaining capital structure and operating cycle, shall remain the key rating sensitivities.

Outlook: Negative

The outlook is 'Negative' on the expectation that HFCL's financial performance is likely to deteriorate due to delay in receipt of purchase orders from Government companies (for contracts where HFCL is L1 bidder) leading to decline in revenue and profitability in FY18. Furthermore, the company may also face pressure on liquidity in case of any further increase in collection period, in light of high repayments in next two years.

Conversely, the outlook may be revised to 'Stable' if the income and profitability increases, thus improving accruals and culminating in better debt servicing metrics.

Detailed description of the key rating drivers

Key Rating Strengths

Long and established track record with highly experienced management team

Mr Mahendra Nahata, the managing director of the company, has a business experience of more than three decades in telecom 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.

Strong order book

HFCL's order book stood strong with the company having firm orders to the tune of Rs.2,443 crore as on May 31, 2017. Furthermore, the company is bidding for new government contracts for GIS Based OFC Network Management System, supplying Optical Transmission devies, etc. and is L-1 bidder for contracts having value of Rs.5,055 crore.

Subdued financial performance in FY17; albeit capital structure maintained

During FY17, the company saw operating income dipping from Rs.2,583 crore in FY16 to Rs.2,027 crore in FY17; yoy decline of 21.5% owing to delay in issuing of purchase order by government companies. Lower income, higher material cost coupled with high fixed expenses led to dip in PBILDT margin from 12.90% in FY16 to 9.37% in FY17. Nevertheless, coverage indicators remain comfortable with interest coverage at 3.25x in FY17 (PY: 5.70%) and total debt to GCA at 3.54x as on March 31, 2017 (PY: 2.93x). Moreover, capital structure stood strong with overall gearing of 0.48x as on Mar 31, 2017 (PY: 0.58x). Total debt decreased from Rs.532 crore as on Mar 31, 2016 to Rs.494 crore as on Mar 31, 2017 owing to repayment of term loans and ICDs.

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

CDR exit in progress

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 calculated and the same has been approved by the lenders as well as the statutory auditors. The Monitoring Institution (MI) is in process of submitting its report to the CDR-Empowered Group (CDR-EG) on status of formalities been complied by the company. Once the report submitted by MI is accepted by the CDR-EG, HFCL shall completely exit CDR.

Key weaknesses

Elongated operating cycle

HFCL's operating cycle elongated from 75 days in FY16 to 149 days in FY17 owing to increase in collection period. However, the liquidity profile stood stable with current ratio of 2.20x as on March 31, 2017 (PY: 2.50x) along with cash and liquid investments of Rs.84 crore as on 31-Mar-17 (held as margin money: Rs.72 crore). Moreover, average fund-based utilization was comfortable at 39% in the 12 months ended May 31, 2017.

Client concentration risk

The contribution of top 5 customers has reduced from 85% in FY15 to 75% in FY16 to further 70% in FY17. One of the largest private telecom players is the key customer with 53% contribution in operating income in FY17 (PY: 55%). Nevertheless, the management has been diversifying its customer base by focusing more on PSU contracts which have potential business with 'Digital India' programme of GoI. The timeliness of execution and billing of the contracts shall remain key sensitivities.

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 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, CDMA mobile networks, optical transport networks and spectrum management solution and has worked for various private and government operators including major GSM vendors.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,583	2,027
PBILDT	333	190
PAT	150	124
Overall gearing (times)	0.58	0.48
Interest coverage (times)	5.70	3.25

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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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 BBB+; Negative
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE BBB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	890.00	CARE A2+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	205.57	CARE BBB+; Negative	-	1)CARE BBB+ (06-Sep-16)	1)CARE BBB+ (12-Oct-15)	1)CARE BBB (16-Jul-14)
2.	Fund-based - LT-Term Loan	-	-	-	-	-	1)CARE BBB+ (12-Oct-15)	1)CARE BBB (16-Jul-14)
3.	Fund-based - LT-Cash Credit	LT	250.00	CARE BBB+; Negative	-	1)CARE BBB+ (06-Sep-16)	1)CARE BBB+ (12-Oct-15)	1)CARE BBB (16-Jul-14)
4.	Fund-based - LT-Cash Credit	-	-	-	-	-	1)CARE BBB+ (12-Oct-15)	1)CARE BBB (16-Jul-14)
5.	Non-fund-based - ST-BG/LC	ST	890.00	CARE A2+	-	1)CARE A2+ (06-Sep-16)	1)CARE A2+ (12-Oct-15)	1)CARE A3 (16-Jul-14)
6.	Non-fund-based - ST-BG/LC	-	-	-	-	-	1)CARE A2+ (12-Oct-15)	1)CARE A3 (16-Jul-14)

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CIN - L67190MH1993PLC071691