Hindusthan Urban Infrastructure Limited

January 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	142.04 (reduced from Rs.157.52 crore)	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	Revised from CARE BBB (Triple B)
Long-term/Short-term Bank Facilities	416.63 (enhanced from 401.15 crore)	**CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative/ A Three)**	Revised from CARE BBB/ CARE A2 (Triple B/ A Two)
Total	**558.67 (Rupees Five Hundred Fifty Eight crore and Sixty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Hindusthan Urban Infrastructure Limited (HUIL) factors in the moderation in its financial profile on account of weak financial performance in FY16 (refers to the period April 01 to March 31) and H1FY17 (refers to the period April 01 to September 30), deterioration in the solvency position and intensive working capital requirements for operations. Furthermore, the company is providing financial support through consistent equity infusion and corporate guarantee for term debt to wholly-owned subsidiary viz. Hindusthan Speciality Chemicals Limited (HSCL) for the ongoing capital expenditure project. The ratings continue to factor in HUIL's low profitability margins, susceptibility to volatility in raw material prices as well as presence in an intensely competitive industry.

The ratings continue to derive strength from the strong group profile with vast experience of the promoters, established track record of operations, long-standing relationship with its customers, and consistent funding support from the group company viz. Hindusthan Engineering Industries Limited (HEIL).

Going forward, the ability of the company to operate at optimal utilization while improving its profitability margins amidst varying input prices and forex fluctuations and maintaining the capital structure shall be the key rating sensitivities.

Outlook: Negative

The outlook is 'Negative' on the expectation of stressed debt coverage indicators and delay in the expected liquidity generation through sale of investments. The outlook may be revised to 'Stable' if the company is able to ramp up its revenue with improvement in key financial parameters as well as improvement in liquidity through sale of investments.

Detailed description of the key rating drivers

The profitability margins of HUIL remains low with PBILDT margin and PAT margin of 7.55% and 0.23% respectively in FY16 vis-à-vis 4.88% and 0.80%, respectively, in FY15 (*adjusted to revenue subsidy directly added to capital reserves in FY15*). The profitability margins stood low on account of highly competitive nature of the industry with limited value addition to the products offered. The profitability of HUIL continues to remains weak with net losses in H1FY17. The lower profitability of HUIL during H1FY17 is on account of lower operations of the conductor manufacturing division which accounts for around 74% of the net sales in FY16. Furthermore, the financial performance of the insulator division continues to remain weak with financial support being extended from HEIL to support the operations of the company as well as execution of coal gasification project.

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

The solvency position of HUIL has deteriorated in FY16 with overall gearing of the company at 1.12x as on March 31, 2016, vis-à-vis 0.74x as on March 31, 2015. Also, Total debt to Gross Cash Accruals deteriorated to over 20x in FY16 vis-à-vis ~15x in FY15. The same was on account of increase in debt availed by the company while subdued profitability and cash accruals in FY16. The company has also extended corporate guarantee for the term loan of Rs.172.80 crore for the execution of green field project in HSCL (availed Rs.2.33 crore as on December 26, 2016). HUIL has invested Rs.58.75 crore till November 30, 2016 (Rs.52.33 crore as on December 31, 2015), by way of equity capital in HSCL. The company has commitments in form of equity to be infused for the HSCL project which has led to stress in the cash flows for debt servicing of HUIL. Furthermore, the project debt is guaranteed by HUIL which may have an impact on credit profile of the company in case of delays in project execution or sub optimal performance post commencement of commercial operations of the company.

HUIL's working capital cycle remains high on account of the overhead conductors and HT insulators which are order based business. During FY16, the collection period has increased to 104 days vis-à-vis 91 days in FY15. However, the operating cycle remains at 83 days in FY16 (*83 days in FY15*) on account of increase in creditors period (*56 days in FY16 vis-à-vis 37 days in FY15*) despite of marginal increase in inventory period also (*35 days in FY16 vis-à-vis 30 days in FY15*). The current ratio of the company remains low at 1.00x as on March 31, 2016 vis-à-vis 1.08x as on March 31, 2015.

HUIL is the part of '*The Hindusthan Group*' which has presence into diversified business segments viz. foundry engineering, chemicals, jute-based products, conductors, insulators, education, etc. HUIL has well-diversified operations which can be classified into three divisions, viz, conductors, insulators and power. HUIL has a long track record of more than 55 years.

HUIL has an established relationship with its customer base. For the conductor business, the company derives major revenue from the government PSUs and Transmission & Distribution (T&D) companies. Power Grid Corporation of India Limited (PGCIL) is the major client which accounts for around 40% of the conductor business of the company. The company sells HT insulators to global reputed companies.

As on September 30, 2016, the company has investments in equity instruments (*excluding subsidiary investment*) of Rs.24.42 crore with market value of Rs.24.62 crore. The company also has land bank at various locations which provides buffer with the company to fund any future requirements. The company has plans to liquidate part of the land bank to generate additional liquidity to support the operations of the company. However, given the current subdued real estate industry scenario, the same is not expected to materialize in the short to medium term.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Factoring Linkages in Ratings
CARE's methodology for Manufacturing Companies
Financial Ratios – Non Financial Sector

Company Background

Incorporated in 1959, HUIL was established by the name of 'The Indian Aluminium Cables Limited' and was later renamed to 'Hindusthan Vidyut Products Limited' before being renamed to its current name. The company is part of the Hindusthan Group which is promoted by Mr Rajendra Prasad Mody and family. The company is in the manufacturing of the bare overhead conductors with annual installed capacity of 66,000 MT (metric tons) and HT insulators with annual installed capacity of 15,379 MT. Apart from manufacturing conductors and insulators; the company also has 4 nos of Wind Turbine Generators (WTGs) with installed capacity of 6 MW in Rajasthan. HUIL's wholly owned subsidiary viz.

Hindusthan Speciality Chemicals Limited (*HSCL*) is executing a project pertaining to establishing facilities for manufacturing of Epoxy Resin which is expected to commence commercial production in October 2017.
During FY16 (refers to the period April 01 to March 31), HUIL earned a PAT of Rs.1.59 crore on a total operating income of Rs.681.14 crore as compared with PAT of Rs.2.77 crore on a total operating income of Rs.792.49 crore in FY15. In H1FY17 (refers to the period April 01 to September 30), HUIL reported a net loss of Rs.3.28 crore on a total income of Rs.294.47 crore as compared with a net loss of Rs.8.32 crore on a total income of Rs.276.84 crore in H1FY16. The company has changed accounting policy in FY16. The income and PAT for FY16 and H1FY17 includes revenue subsidy being received from Assam Government (*amounting to Rs.6.06 crore in FY16 and Rs.1.80 crore in FY16 and H1FY17, respectively*) which were credited to Capital Reserve Account in FY15 and H1FY16.

Status of non-cooperation with previous CRA: ICRA has suspended the ratings for term loan of Hindusthan Urban Infrastructure Limited as per press release date December 19, 2016 due to ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History (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/Non-fund-based-LT/ST	-	-	-	17.38	CARE BBB-; Negative / CARE A3
Fund-based - LT-Term Loan	-	-	September 2023	59.04	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	83.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	399.25	CARE BBB-; Negative / CARE A3

Annexure-2: Rating History (Last three years)

		Current Ratings			Chronology of Rating history for past three years			
Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	17.38	CARE BBB-; Negative / CARE A3	-	1)CARE BBB / CARE A2 (23-03-2016)	-	-
2.	Fund-based - LT-Term Loan	LT	59.04	CARE BBB-; Negative	-	1)CARE BBB (23-03-2016)	-	-
3.	Fund-based - LT-Cash Credit	LT	83.00	CARE BBB-; Negative	-	1)CARE BBB (23-03-2016)	-	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	399.25	CARE BBB-; Negative / CARE A3	-	1)CARE BBB / CARE A2 (23-03-2016)	-	-

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