Hindusthan Urban Infrastructure Ltd

August 23, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	140.80	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-Minus; Outlook: Negative**
Long-term/Short-term Bank Facilities	379.25	**CARE BB+; Stable/ CARE A4 (Double B Plus; Outlook: Stable/ A Four)**	**Revised from CARE BBB-Minus; Outlook: Negative/ CARE A3**
Total	**520.05 (Rs. Five hundred twenty crore and five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Hindusthan Urban Infrastructure Limited (HUIL) takes into account the continued weak financial performance in FY18 (refers to the period April 1 to March 31) and Q1FY19 (refers to the period April 1 to June 30) with low profitability margins and debt coverage indicators. The rating is further constrained by susceptibility to volatility in raw material prices, its presence in an intensely competitive industry and financial support extended to HUIL's wholly owned subsidiary viz. Hindusthan Speciality Chemicals Limited (HSCL) for the ongoing capital expenditure project and company's obligation to fund the cost overrun. The rating however continues to derive strength from long track record of the company, experienced promoters and long standing relationship with its customers. The ratings further derive strength from HUIL's healthy order book position, and consistent funding support from the group company viz. Hindusthan Engineering Industries Limited (HEIL)

Going forward, ability of the company to scale up operations with improved profitability and operate at optimal utilization amidst varying input prices and forex fluctuations and maintaining healthy capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial performance: The operational performance of the company has continued to deteriorate with a declining trend in operating income for past few years which continued in Q1FY19, coupled with rise in key raw material prices (Aluminium) during FY18. The company's inability to pass on the increased cost burden to the end consumer, presence of few fixed price contracts and increased dependence on external debt to fund the incremental working capital gap along with consistent increase in long-term borrowing over the past 3 FY's has also resulted in high interest expense and adversely affected PBILDT and PAT margin. The PBILDT margin remained stable at 5.72% in FY18 (abridged) as compared with 5.65% in FY17, however declined from 4.22% in Q1FY18 to 3.63% in Q1FY19. The company reported a net loss of Rs.0.63 crore for the year FY18 and a net loss of Rs.3.27 crore during Q1FY19. The increase in raw material prices (mainly Aluminium), and other direct costs have dented HUIL's profitability. The company also has a weak bargaining power with the raw material suppliers including Hindalco, Nalco and Balco where the payment is either advance or on sight LC, whereas the realization from debtors takes around 3 months due to delay in realization of receivables from the government. The financial support extended by HUIL to its group companies in the form of corporate guarantees and fund based support to meet cost-over run continues to exert liquidity pressure. HUIL has extended corporate guarantee for borrowing of Rs.172.80 crore of Hindusthan Speciality Chemicals Limited. The project was scheduled to be commissioned by October 1, 2017 however the date of scheduled commercial operation was extended to October 1, 2018 and commensurate shift in the moratorium period, repayment schedule, loan tenor due to monsoon issue and delay in procurement of key construction equipment (import instead of domestic purchase due to cost consideration). As a result of this, the increase in interest (cost over-run) in respect of the loan availed was funded entirely by the promoter's funds (partly form sale of non-core assets of the company and sale of liquid investments). The financial progress achieved till June 30, 2018 was measured at around 70% (excluding unspent cash and bank balances, FD with banks and deposits with statutory authorities). The COD of the project has been extended by a year by the bankers, however the cost-overrun shall be met by the promoters. However since the company did not avail the entire loan for the project, the cost overrun in form of interest during construction is not expected to increase substantially.

Intensive working capital operations: HUIL's working capital cycle remains high on account of the overhead conductors and HT insulators which are order based business. The average collection period has continued to remain high at 104 days

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

(108 days in FY17) owing to delay in realization of receivables from the government (which account for around 90%-95% of the total operating income). However, the operating cycle remains low at around 50-70 days owing to usance LC being availed by the company for procurement of raw material. The average creditors increased from 65 days in FY17 to 85 days in FY18 which reduced the overall operating cycle from 73 days in FY17 to 57 days in FY18 owing to the LC backed creditors usance period increased from 60 days to 90 days. The company has sanctioned working capital limits of Rs.93 crore with CC utilization for the past 6 months has been around 50%-60%.

Key Rating Strengths

Experienced promoters and management: HUIL is promoted by Mr Rajendra Prasad Mody who is the founder and chairman of the group. Mr Rajendra Prasad Mody was also the Member of Parliament in Rajya Sabha during 1992-98. He is also the former president of Indian Chamber of Commerce, Kolkata and trustee of Calcutta Port Trust. Mr Vikram Aditya Mody (Promoter and Non-Executive Director), is a commerce graduate and having over 32 years of industrial experience with expertise in electrical and agro based manufacturing industries. He is also in the board of various companies and entities including Indian Chamber of Commerce, Kolkata. Mr. Raghavendra Anant Mody has been appointed as the Chairman of the board with effect from August 31, 2017. Mr. Raghavendra Anant Mody is the third generation of promoter's family graduated in commerce from the Calcutta University. Mr Shyam Sunder Bhuwania, (Vice Chairman and Managing Director), is a commerce graduate, LL.B and a member of The Institute of Chartered Accountants of India. He has been associated with the company since 1975 and has over 46 years of industrial experience. Also, he is the President of EHV Conductor Manufacturers Association and adviser to Cable and Conductor Manufacturers Association of India. He is in the board of Governors of Mody Education Foundation and a member of Board of Management of Mody University. The operations of the company are managed by well qualified and experienced senior management team.

Established and long-track record of company: 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. The company was started with the manufacturing of conductors at its initial manufacturing facility at Faridabad (Haryana) and Ghaziabad (Uttar Pradesh). Currently, HUIL manufactures bare conductors at its three manufacturing facilities at Bhubaneshwar (Odisha), Guwahati (Assam) and Gwalior (Madhya Pradesh) with an installed capacity of 66,000 MTPA. The company is also manufacturing HT insulators at Mandideep (Madhya Pradesh). The company also has 4 nos of Wind Turbine Generators (WTGs) with installed capacity of 6 MW in Rajasthan. In FY18, the company derived approx. 68% of the net sales from the conductor division (74% in FY17) and the insulators division contributed 31% of the total operating income (25% in FY17) while revenue from power is less than 1% of the overall sales. The company maintains an order book to be executed at a period of 3 to 5 months. The company's order book stood at Rs.450 crore as on July 31, 2018 with moderate revenue visibility.

Established customer base: HUIL has a long track record of operation and has created 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 58% of the conductor business of the company. The same exposes the company to customer concentration risk with a high dependency on PGCIL for its revenue. The company also sells conductors to other T&D companies like Purvanchal Vidyut Vitran Nigam Limited (PUVVNL) and UP Power Transmission Corporation Limited as well as EPC companies like Larsen & Tubro Limited and Transrail Lighting ltd (Gammon). The company sells HT insulators to global reputed clientele including Crompton Greaves Limited, GE Limited, ABB India Ltd, Tata Projects Ltd and Siemens India Ltd.

Analytical approach: Consolidated – The analysis is based on the 3 wholly-owned subsidiaries of HUIL, Hindusthan Speciality Chemicals Ltd, Hindusthan Vidyut Products Ltd and Hindusthan Projects Ltd which have significant impact on the performance of HUIL on account of corporate guarantee and fund based support extended to these companies.

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

About the Company

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. 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 2018.

Brief Financials (Consolidated Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	739.98	718.68
PBILDT	41.82	41.13
PAT	2.00	-0.63
Overall gearing (times)	0.51	0.63
Interest coverage (times)	1.13	1.09

A: Audited (Abridged)

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	-	-	August 2019	47.80	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	93.00	CARE BB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	379.25	CARE BB+; Stable / CARE A4

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/Non-fund-based-LT/ST	LT/ST	17.38	CARE BB+; Stable / CARE A4	1)CARE BBB-; Negative / CARE A3 (03-Jan-18)	1)CARE BBB-; Negative / CARE A3 (24-Jan-17)	1)CARE BBB / CARE A2 (23-Mar-16)	-
2.	Fund-based - LT-Term Loan	LT	47.80	CARE BB+; Stable	1)CARE BBB-; Negative (03-Jan-18)	1)CARE BBB-; Negative (24-Jan-17)	1)CARE BBB (23-Mar-16)	-
3.	Fund-based - LT-Cash Credit	LT	93.00	CARE BB+; Stable	1)CARE BBB-; Negative (03-Jan-18)	1)CARE BBB-; Negative (24-Jan-17)	1)CARE BBB (23-Mar-16)	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	379.25	CARE BB+; Stable / CARE A4	1)CARE BBB-; Negative / CARE A3 (03-Jan-18)	1)CARE BBB-; Negative / CARE A3 (24-Jan-17)	1)CARE BBB / CARE A2 (23-Mar-16)	-

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