

Hindusthan Urban Infrastructure Ltd

January 3, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	140.80 (reduced from Rs.142.04 crore)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Long-term/Short-term Bank Facilities	379.25 (reduced from 416.63 crore)	CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative/ A Three)	Reaffirmed
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 ratings assigned to the bank facilities of Hindusthan Urban Infrastructure Limited (HUIL) 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, satisfactory liquidity position and consistent funding support from the group company viz. Hindusthan Engineering Industries Limited (HEIL). The ratings are, however, constrained by HUIL's low profitability margins, moderate debt coverage indicators, susceptibility to volatility in raw material prices as well as presence in an intensely competitive industry. The ratings also factor in the 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.

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 the capital structure shall be the key rating sensitivities.

Outlook: Negative

The outlook is 'Negative' on the expectation of stressed debt coverage indicators and weak liquidity position. 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.

Detailed description of the key rating drivers

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 Bhubaneswar

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

(Odisha), Guwahati (Assam) and Gwalior (Madhya Pradesh) with an installed capacity of 66,000 MTPA. Going forward, the company plans to shut down its Gwalior plant and cover its production through plant in Odisha as a cost reduction measure. 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 FY17 (refer to the period April 01 to March 31), the company derived approx. 74% of the net sales from the conductor and 25% of the net sales from the insulators 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.721.59 crore as on August 31, 2017 with comfortable 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.

Key Rating Weaknesses

Weak financial performance: The operational performance of the company has continued to deteriorate with marginal dip in operating income coupled with rise in key raw material prices (Aluminium) during FY17. The company's inability to pass on the increased cost burden to the end consumer 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. Resultantly the PBULDT margin declined from 7.35% in FY16 to 6.70% in FY17 and the net loss increased from Rs.0.31 crore in FY16 to Rs.2.21 crore in FY17. The operating income has, however marginally improved during H1FY18, however the PAT margin continues to remain low. 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 2017 however the financial progress achieved till August 31, 2017 is meagre 39% (Rs.96 crore spent out of the total project cost of Rs.247 crore). The COD of the project has been extended by an year by the bankers, however the cost-overflow 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. Further the company has current investments in the form of equity shares of Reliance Industries Ltd with an estimated market value of Rs.25 crore to meet any exigency.

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. During FY17, the collection period has increased to 121 days vis-à-vis 103 days in FY16. However, the operating cycle remains at 89 days in FY17 (84 days in FY16) on account of increase in creditors period (77 days in FY17 vis-à-vis 55 days in FY16) despite of marginal increase in inventory period also (45 days in FY17 vis-à-vis 36 days in FY16). The current ratio of the company remained low at 1.02x as on March 31, 2017. The company has sanctioned working capital limits of Rs.93 crore with CC utilization in the last 12 months ending October 2017 stood at 77%.

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. 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 2018.

Brief Financials (Consolidated Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	687.24	673.12
PBILDT	50.55	45.07
PAT	-0.31	-2.21
Overall gearing (times)	1.26	1.14
Interest coverage (times)	1.49	1.22

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	47.80	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	93.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	379.25	CARE BBB-; Negative / CARE A3

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 BBB-; Negative / CARE A3	-	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 BBB-; Negative	-	1)CARE BBB-; Negative (24-Jan-17)	1)CARE BBB (23-Mar-16)	-
3.	Fund-based - LT-Cash Credit	LT	93.00	CARE BBB-; Negative	-	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 BBB-; Negative / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (24-Jan-17)	1)CARE BBB / CARE A2 (23-Mar-16)	-

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