Press Release

Himachal Futuristic Communications Ltd.

September 28, 2018

Rating

Instrument / Facility	Amount	Rating	Rating Action
Outstanding Term Loan	205.57	IVR A-/ Stable Outlook(IVR Single A minus with Stable Outlook)	Reaffirmed and Withdrawn
Fund based facilities (CC)	200.00	IVR A- with Stable Outlook (IVR Single A minus with Stable Outlook)	
Non fund based facilities	570.00	IVR A2+ (IVR A Two plus)	
Total	**975.57**		

Details of Facility are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd has assigned a rating of **IVR A- with Stable Outlook/IVR A2+ (IVR Single A minus with Stable Outlook/IVR A Two plus)** to the Long/Short-term Bank Facilities aggregating Rs.975.57 crores of Himachal Futuristic Communications Ltd (HFCL). The ratings have been subsequently withdrawn at the request of the company and on receipt of no-objection certificate from the concerned lenders.

Detailed Rationale

The reaffirmation of rating derives comfort from the company's long presence in the market, improved financial performance, strong order book position, comfortable leverage & debt protection matrices and strong demand potential for telecom &related products. Completion of the CDR exit process and payment of recompense amount also support the rating. The rating is constrained by high average receivable collection period, customer concentration risk generally, though decreasing, and proposed expansion plan. Diversification in revenue profile, managing receivable collection period and successful completion of the proposed expansion plan are the key rating sensitivities.

List of Key Rating Drivers

- Long presence in the market
- Improved financial performance
- Strong order book position
- Comfortable leverage & debt protection matrices
- Completion of process for exiting CDR and payment of recompense amount
- Strong demand potential for telecom products, optic fibre cables and turnkey communication networks
- High average collection period
- Customer concentration risk
- Project execution risk

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long presence in the market

HFCL, incorporated in 1987 by Mr. Mahendra Nahata, has exponentially increased in size over decades. It started with the manufacturing of telecom equipment and gradually diversified into manufacturing of optic fibre cables and providing turnkey services.

Improved financial performance

The company achieved revenues of Rs.3,070 crores for FY18 vis-a-vis revenues of Rs. 2,015 crores for FY17 (registering a growth of ~52 per cent in revenues). This growth was driven by increased revenue from Reliance Jio and due to spill over of revenues from FY17 on account of deferment of revenue recognition from FY17 to FY18.

Strong Order book position

The company's order book position as on July 31, 2018 stood at Rs. 8,615 crores.

Comfortable leverage& debt protection matrices

Leverage as reflected by long term debt equity ratio and overall gearing, improved to 0.20x and 0.35x (as on 31 March 2018) as compared to 0.32x and 0.48x (as on 31 March 2017).

Completion of process for exiting CDR & payment of recompense amount

The company has implemented the CDR package successfully. Post commencement of the CDR package, the company has been regular in meeting its liabilities. CDR – EG has given its approval for successful exit of the company from CDR mechanism by way of a letter dated 1 September 2017

Strong demand potential for telecom products, optic fibre cables and turnkey communication networks

India is the second largest telecommunications market in the world as of February 2018. The telecom equipment market was estimated to be at USD 20 billion in FY16. It is anticipated to reach USD 30 billion by FY20. Under the Government of India's "Digital India Programme", the government envisions every Indian to have a smart phone by 2019. The Indian Mobile Value Added Services (MVAS) industry is expected to reach USD 23.8 billion by 2020. The above factors indicate a strong growth potential for the telecom products and allied industries.

Key Weaknesses:

Average collection period being on the higher side

The average collection period has generally been on the higher side and is in the range of 120-140 days. This is primarily on account of increase in government contracts leading to procedural delays in realization of payments.

Customer concentration risk

The company has a non-granular client profile. The clientele comprises top corporate houses and public sector companies including RJio, Telecommunications Consultant India Ltd (TCIL) and BSNL.

Project execution risk

The company proposes a capex plan of Rs. 275 Crores for setting up a fiber optic (Rs.225 crore) and cable (Rs.50 crore) facility in Telangana. The plant will produce 6.4 million fibre kilometer of optic fibre which will be consumed captively by the company's OFC manufacturing facilities at Goa and Chennai. Successful and timely execution of the capex plan will have an impact on the future performance of the company.

Analytical Approach and Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Policy on withdrawal

About the Company

Himachal Futuristic Communications Limited (HFCL) was incorporated in 1987. Shri Mahendra Nahata, a businessman from Kolkata laid the foundation of the company. The company started with the manufacturing of telecom equipment and then gradually diversified into manufacturing of optic fibre cables and providing turnkey services. Its services majorly encompass carrying out feasibility studies, selection of media, survey, design, planning & engineering of telecom networks, supply & laying of optical fibre cables, installation & commissioning of transmission equipment and subscriber access networks, installation of towers, DGs & power plants and operation and maintenance of telecom networks. Debt of the company was restructured under Corporate Debt Restructuring (CDR) mechanism in April 2004, which was subsequently modified in June 2005 with cut - off date as 1st April 2005. CDR Empowered Group (CDR – EG) at its meeting held on 9th February 2011, had approved the rework package of the company with the cut - off date as 1st January 2011. The conditions as stipulated by CDR-EG while sanctioning rework package have been complied with by the company. In view of improved performance of the company, subsequent to the implementation of the rework package the lenders have reset the rate of interest on certain loans. The lenders had the right to claim recompense from the Company on account of various sacrifices and waivers made by them in the CDR rework package upon exit by the company from the CDR. The Company's proposal for exit from CDR was considered by the Monitoring Institution (MI) of lenders which recommended the recompense amount of Rs. 148.47 crores. The said recompense was approved by the CDR-EG by way of its order in March 2016. The Company has paid the recompense amount to the CDR lenders as per exit terms and CDR – EG has given its approval for successful exit of the company from CDR mechanism by way of a letter dated 1 September 2017.

Financials (Standalone)

(Rs. Crores)

For the year ended / As on	**31-03-2017**	**31-03-2018**
	Audited	**Audited**
Total Operating Income	2015.2	3070.1
EBITDA	178.5	263.1
PAT (excluding extra ordinary items)	123.7	156.8
PAT (after extra ordinary items)	123.7	155.0
Total Debt	498.2	424.9
Tangible Net worth	1037.5	1204.8
Ratios		
Growth Ratios (%)		
a. EBIDTA Margin	8.86	8.57
b. PAT Margin (excluding extraordinary items)	6.08	5.08
c. PAT Margin (after extraordinary items)	6.08	5.02
b. Overall Gearing ratio	0.48	0.35

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
	Type	**Amount outstanding (Rs. Crores)**	**Rating**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**	**Date(s) & Rating(s) assigned in 2015-16**
Issuer Rating	Long term	Not Applicable	IVR A- (Is) /Stable Outlook (Withdrawn:- August 28,2018)	IVR A- (Is) /Stable Outlook (July 14, 2017)	--	--
Long/Short-term Bank Facilities	Long/Short -term	975.57	IVR A- with Stable Outlook/IVR A2+ (Reaffirmed and Withdrawn)	IVR A- with Stable Outlook/ IVR A2+ (July 25, 2017)	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:
Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
Term Loan	-	-	Varying maturities till September 30, 2021	205.57	IVR A- with Stable Outlook (IVR Single A minus with Stable Outlook) (Reaffirmed and Withdrawn)
Cash Credit	-	-	-	200.00 (including proposed 50.00)	IVR A- with Stable Outlook (IVR Single A minus with Stable Outlook) (Reaffirmed and Withdrawn)
Letter of Credit/Bank Guarantee	-	-	-	570.00 (including proposed 120.00)	IVR A2+ (IVR A Two plus) (Reaffirmed and Withdrawn)