Press Release

Himachal Futuristic Communications Ltd.

July 14, 2017

Rating

Instrument / Facility	Amount	Rating	Rating Action
Issuer Rating	Not Applicable	IVR A- (Is)/Stable Outlook (IVR Single A minus IS with Stable Outlook)	Assigned

Details of Facility are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd has assigned an issuer rating of IVR A-(Is)/Stable Outlook (pronounced IVR Single A minus IS with Stable Outlook) to Himachal Futuristic Communications Ltd (HFCL). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations. Such issuers carry low credit risk.

Detailed Rationale

The rating derives comfort from the company's long presence in the market, demonstrated strong business execution of 4G services for one of the largest private operators although dependence on single customer has been high, satisfactory order book position, comfortable leverage & debt protection matrices and strong demand potential for telecom related products. Completion of the CDR exiting process and payment of recompense amount also support the rating. The rating also takes into consideration the dip in margins during FY17, customer concentration risk, though decreasing, and average receivable collection period being on the higher side. Diversification in revenue profile, sustenance of current gearing level and management of receivable collection period are the key rating sensitivities.

List of Key Rating Drivers

- Long presence in the market
- Demonstrated business execution for a very large project for one of largest private telecom operator, although dependence on single customer has being high.
- Satisfactory order book position.
- Comfortable leverage & debt protection matrices.
- Completion of the process for exiting CDR and payment of recompense amount.
- Strong demand potential for telecom products, optic fibre cables and turnkey communication contracts.
- Dip in margins during FY17.
- Customer concentration risk.
- Average receivable collection days being on the higher side.

Detailed Description of Key Rating Drivers

Long presence in the market

HFCL, incorporated in 1987 by Shri Mahendra Nahata, a businessman based out of Kolkata, 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. Its services majorly encompass 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 the telecom network.

Demonstrated execution of one of the largest telecom network for one of the largest private telecom operators

The company has demonstrated successful execution of telecom network for providing 4G services for one the largest private telecom operators. This has contributed significantly to its revenue for last 4-5 years, indicating a concentration risk. However, with such project reaching completion soon, the company will move towards significant portfolio diversification. Even then, the company's revenue is estimated to be around Rs.800 crores on annual basis, going forward, from this client mainly on account of expansion requirement and hence it will continue to be one of the company's largest client in the medium run.

Satisfactory Order book position

The company's order book as on March 31, 2017 stood at Rs.3800 crores, of which orders to the tune of Rs.3010 crores are planned to be executed during FY18. Apart from this, the company has L1 position in respect of orders of around Rs.4200 crores.

Comfortable leverage& debt protection matrices

Leverage as reflected by long term debt equity ratio and overall gearing, remained comfortable and range bound as on the last three closing dates. Long term debt by EBITDA was also comfortable over the past two years. Interest cover was comfortable at 3.05x in FY17.

Completion of the 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. With the improved financial performance, the Company submitted its proposal for exit from CDR mechanism to Monitoring Institution. The recompense amount of Rs.148.47 crores, as approved by CDR - Empowered Group subject to the approval from Company's Lenders, has been paid. While, the recompense amount has been approved by some of the lenders, the approval from the remaining lenders is expected soon. Currently, the company is awaiting for the formal notification from the CDR cell for exit.

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

The performance of the domestic telecommunication sector during 2015-16 was encouraging, with approximately 41 million new telephone connections added during April to December 2015 and total connections reaching 1010 million. Overall tele density in the country increased from 79.38% at the beginning of 2015 to 81.83% at the end of December 2015, while total broadband connections touched 136.53 million (at the end of December 2015) as per TRAI. This will result in increasing demand for telecom and allied products including communication networks.

Dip in margins during FY17

Total operating income was sizeable during the last few years, being at the range of Rs.2000-2500 crores. However, the total operating income in FY17 declined by 22% from FY16 on account of delay in receiving orders against successful bids. This had resulted in under absorption of overheads. This, together with raw material price increase, resulted in reduction in EBIDTA level and the margin as compared to FY16. The PAT margin (excluding extraordinary items) during FY17 also followed the trend in EBIDTA margin.

Customer concentration risk

The company has a non-granular client profile. The top 10 customers comprise 80% of total net sales in FY17, indicating concentration in the client portfolio. However, there was an improvement vis-à-vis FY15 as one single customer accounted for 80% of net sales in FY15 which reduced to 59% in FY17. The clientele comprises top corporate houses and public sector companies.

Average receivable collection period being on the higher side

The average collection period has generally been on the higher side and increased significantly in FY17 due to increase in government contracts involving procedural delays.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation

About the Company

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

However with economic meltdown in 2001-02, leading to company earning inadequate level of cash accruals to service its debt obligations and general liquidity stress arising out of insufficient working capital, the company had to approach the CDR Cell for restructuring of its debt. The debt restructuring was approved by the CDR Cell in 2004 with no waivers / provisioning. However, due to delay in release of working capital limits, increased competition from Chinese companies and substantial fall in the prices of telecom products world over, the scheme sanctioned by CDR Cell could not be adhered to and the company again approached for revision in the sanctioned scheme. In June 2005, the CDR Cell considered company's request and approved restructuring proposed without any waivers / provisioning. The CDR package sanctioned in 2005 was mainly based on liquidation of some of the company's investments apart from expected revenue from the operations. These divestments got delayed and actually happened in 2009-10. Therefore, company approached CDR cell and got its debt restructured.

Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2016	31-03-2017
	Audited	**Audited**
Total Operating Income	2569.5	2015.2
EBITDA	321.4	178.5
Depreciation	24.9	15.7
Interest	58.4	58.5
PAT (excluding extra ordinary items)	260.4	123.7
PAT (after extra ordinary items)	150.5	123.7
Gross Cash Accruals (GCA)	175.4	139.4
Total Debt	540.8	498.2
Long Term Debt	398.6	332.9
Tangible Net worth	917.9	1043.5
Total Capital Employed	1469.8	1558.2
Ratios		
Growth Ratios (%)		
a. Increase in Total Income	NM	-21.57
b. Increase in EBIDTA	NM	-44.46

c. Increase in PAT	NM	-17.77
Profitability Ratios (%)		
a. EBIDTA Margin	12.51	8.86
b. PAT Margin (excluding extraordinary items)	10.05	6.08
c. PAT Margin (after extraordinary items)	5.80	6.08
d. Return On Capital Employed - Operating	24.31	11.19
e. Return On Capital Employed - Total	22.56	10.75
f. Return on Networth	17.92	12.62
g. Cost of Avg. Borrowings	12.64	11.26
Solvency Ratios		
Long Term		
a. Long Term Debt Equity ratio	0.43	0.32
b. Overall Gearing ratio	0.59	0.48
c. Interest Coverage (times)	5.50	3.05
d. Long Term debt/GCA (years)	2.27	2.39
e. Long Term Debt / EBIDTA	1.24	1.87
f. Total Debt / GCA (years)	3.08	3.57
Short Term		
a. Current Ratio	2.29	1.99
b. Quick Ratio	1.98	1.75
Turnover Ratios		
a. Working Cap Turnover Ratio	2.35	1.63
b. Avg. Collection Period (days)	95	154
c. Average Raw Material, stores and spares holding period (days)	17	15
d. Average WIP (days)	35	38
e. Average Creditors (days)	75	110
f. Operating cycle	72	97

NM-Not meaningful
Financial numbers presented are based on Ind-AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years: Not applicable

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(RsCrores)	Rating Assigned/ Outlook
Issuer Rating	Not Applicable	Not Applicable	Not Applicable	Not Applicable	IVR A-(Is)/Stable Outlook (IVR Single A minus IS with Stable Outlook)