Press Release

Himachal Futuristic Communications Ltd.

July 25, 2017

Rating

Instrument / Facility	Amount	Rating	Rating Action
Long/Short-term Bank Facilities	Rs.975.57 crores	IVR A- with Stable Outlook/IVR A2+ (IVR Single A minus with Stable Outlook/IVR A Two plus)	Assigned

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).

Detailed Rationale

The rating derives comfort from the company's long presence in the market, demonstrated business execution of 4G services for one of the largest private telecom operators, 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, high dependence on single customer with customer concentration risk generally, though decreasing, and elongated average receivable collection period. Diversification in revenue profile, sustenance of current leverage level and managing receivable collection period are the key rating sensitivities.

List of Key Rating Drivers

- Long presence in the market
- Demonstrated business execution of 4G services for one of largest private telecom operators.
- Satisfactory 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 contracts.
- Dip in margins during FY17.
- High dependence on single customer with customer concentration risk generally.
- Elongated average receivable collection period.

Detailed Description of Key Rating Drivers

Long presence in the market

HFCL, promoted by Shri Mahendra Nahata, has been in business for the last three decades. It has exponentially increased its scale of operation over the period. 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 4G services 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 the last four-five years. Although such project is likely to reach completion soon, the company's revenue is estimatedto be around Rs.800 crores on annual basis, going forward, from this client mainly on account of requirement for expansion. Hence, it will continue to be one of the largest clients of HFCL in the medium term.

Satisfactory Order book position

The company’s order book as on March 31, 2017 stood at Rs.3800 crores. Apart from this, the company has, reportedly, secured L1 position in respect of orders of around Rs.4200 crores. Overall, HFCL expects to execute orders to the tune of Rs.3010 crores during FY18.

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. Debt protection parameters such as Long term debt/EBITDA, Long term debt/Gross Cash Accruals and Interest coverage were also comfortable over the past three years.

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. 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, has been paid. Reportedly, the company has completed the entire process for exiting from CDR and the formal notification from the CDR cell is awaited.

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 is likely to 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.

High dependence on single customer with customer concentration risk

The company has a non-granular client profile with its clientele comprising top corporate houses and public sector companies. 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 which accounted for 80% of net sales in FY15 reduced to 59% in FY17 and henceforth, the company is likely to move towards significant portfolio diversification.

Elongated average receivable collection period

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. However, major customers being large private corporates and Central PSUs, the risk of bad debt is likely to be minimal

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation

<u>About the Company</u>

HFCL, incorporated in 1987 by Shri Mahendra Nahata, has increased its scale of operation substantially over the last three decades. It started with the manufacturing of telecom equipment and then 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 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 accruals from the operation. These divestments got delayed and actually happened in 2009-10.

Financials (Standalone)

(Rs. Crores)

For the year ended / Rs. Crs	**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	917.4	1037.5
Total Capital Employed	1469.2	1552.1
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	24.32	11.22
e. Return On Capital Employed - Total	22.56	10.77
f. Return on Networth	17.93	12.66
g. Avg. Cost of 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	2.14	1.92
b. Quick Ratio	1.83	1.68
Turnover Ratios		
a. Working Cap Turnover Ratio	2.55	1.76
b. Avg. Collection Period (days)*	65	124
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	42	67

Adjusted for retention money not fallen due as on the account closing dates.
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(Rs. Crores)	Rating Assigned/ Outlook
Term Loan	Present outstanding	-	Varying maturities till September 30, 2021	205.57	IVR A- with Stable Outlook (IVR Single A minus with Stable Outlook)
Cash Credit	-	-	-	200.00 (including proposed 50.00)	IVR A- with Stable Outlook (IVR Single A minus with Stable Outlook)
Letter of Credit/Bank Guarantee	-	-	-	570.00 (including proposed 120.00)	IVR A2+ (IVR A Two plus)