



Press Release

HFCL Limited

November 23, 2022

Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loans	131.47 (Reduced from 181.80)	IVR A/ Stable (IVR A with stable outlook)	Reaffirmed	Simple
Long Term Fund Based Bank Facilities – Cash Credits	355.00 (Reduced from 375.00)	IVR A/ Stable (IVR A with stable outlook)	Reaffirmed	Simple
Short Term Non- Fund Based Bank Facilities – LC/BGs	1,826.15 (Reduced from 1,842.02)	IVR A1 (IVR A One)	Reaffirmed	Simple
Total	2,312.62			

Details of facilities are in Annexure 1

Detailed Rationale

The rating reaffirmed to the bank facilities of HFCL Limited continues to derive comfort from established track record of group & experienced promoters, satisfactory order book position with reputed clientele, comfortable financial risk profile with healthy debt coverage indicators and strong demand potential for telecom products, optic fiber cables industry. However, these rating strengths remain constrained by working capital intensive operations, customer concentration risk and exposure to intense competition.

Key Rating Sensitivities:

Upward Factor:

- Significant and sustainable improvement in operating performance and profitability margin.
- Improvement in operating cycle with improvement in the average collection period on a sustained basis.

Downward Factor:



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- Further deterioration in operating cycle either by further increase in inventory holding period or collection period.
- Substantial decline in profitability impacting debt protection matrix and liquidity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established Track Record of Group and Experienced Promoters

HFCL, incorporated in 1987 by Mr. 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.

Satisfactory Order book position with reputed clientele

HFCL has a satisfactory order book position with the company having consolidated orders to the tune of Rs.3,377.92 crore and orders under release of Rs.1,605.71 crore as on September 30, 2022. The order book of HFCL is diversified across public and private as well as various product segments. The total order book broadly consists of 68% execution contracts (manufactured goods) and balance are O&M contracts.

Comfortable financial risk profile with healthy debt coverage indicators:

Financial risk profile of the company has improved on account of accretion of profits and infusion of funds through QIP. The overall gearing of the company stood healthy at 0.27x as on March 31, 2022 (0.50x: PY). The TOL/ATNW improved to 0.87x as on March 31, 2022 (1.78x: PY). Further coverage indicators like interest coverage & DSCR stood comfortable in FY22. The interest coverage stood at 3.91x in FY22 (3.12x: PY) and DSCR stood at 3.12x in FY22 (2.90x: PY).



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In order to support the future expansion programs, and R&D initiatives, the company has successfully raised a sum of Rs.600 crore by way of Qualified Institutional Placement (QIP) in the month of Dec 21.

Strong demand potential for telecom products, optic fiber cables industry

The growth that the Indian telecom industry has scripted in these 25 years is phenomenal. The second-largest telecommunication market, India is also one of the fastest-growing economies globally. The industry enjoys a powerful set of enablers for sustained growth. These include 1.3 billion plus population, growing internet community, increasing per capita income, exploding smartphone user base and device ecosystem, low broadband user base, hyper affordable data cost, aggressively growing per capita data consumption and more importantly vast untapped rural market, among others.

Key Rating Weaknesses

Working capital intensive operations:

The average collection period has generally been on the higher side and increased significantly in FY22 to 215 days from 198 days in FY21 due to increase in government contracts involving procedural delays. The debtors related issues are due to execution and achievement of milestones also got impacted / delayed on account of pandemic and lockdown conditions. However, the company is able to negotiate favourable terms with suppliers, there's back-to-back arrangement with vendors. Therefore, any major change in payment from customers also results in similar change in payment to be made to suppliers.

Customer concentration risk

The company has a non-granular client profile. The top five customers comprise ~66% of total net sales in FY22, indicating lack of diversification in the client portfolio. The clientele are generally top corporate houses or public sector companies & are highly rated which provide some degree of mitigants to lack of diversification in the portfolio.

Exposure to intense competition

HFCL faces intense competition in its business segment on account of higher installed capacity. Further, the demand in cable business is majorly dependent on the



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operational/capital expenditure from telecom and power distribution companies. Any delay or deferral of such expenditure would impact revenue visibility of companies catering to this business. Also, EPC business continues to face stiff competition due to presence of many players. Any delay or deferral of such expenditure would impact revenue visibility and profitability of companies like HFCL.

Analytical Approach: Consolidated Approach

While arriving at the ratings, Infomerics has considered the Consolidated financials of HFCL Limited & its subsidiaries viz. HTL Limited, Polixel Security Systems Private Limited, Moneta Finance (P) Limited, HFCL Advance Systems (P) Limited, DragonWave HFCL India Private Limited (subsidiary with effect from 17.12.2019) and Raddef Private Limited (subsidiary with effect from 15.05.2019). Infomerics has taken consolidation view on account of common promoters, Operations and financial linkages between parent and subsidiary companies.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on assigning rating Outlook](#)

Liquidity - Adequate

The liquidity position of the company remained adequate as reflected in the current ratio and quick ratio as on the last three account closing dates. The working capital utilisation was moderate at 82% (average of monthly maximum utilisation) for the last 12 months ended May 2022. Further HFCL had cash & bank balance of Rs.528.24 crore as on March 31, 2022 (includes Rs.286.84 crore of margin money against NFB limits and Rs.224.20 crore of fixed deposit), the company has fixed deposit with bank (maturing more than 12 months) of Rs.35.85 crore and liquid investments of Rs. 8.80 crore as on March 31, 2022. The company has healthy gross healthy accrual (GCA) of Rs.412.08 crore in FY22 as against consolidated bank debt repayments of Rs.45.31 crore due in FY22.

About the Company



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HFCL Limited (formerly known as Himachal Futuristic Communications Limited), established in 1987 is engaged in the business of manufacturing of Optical Fiber (OF), Optical Fiber Cables (OFC), Cable Accessories and High - End Telecom Transmission and Access Equipment and specializes in providing turnkey solution to telecom service providers, railways, Defence, smart city & surveillance projects. HFCL is a leading manufacturer of Optical Fiber Cables (OFC) in India. Also, a leading player in turnkey OFC projects. HFCL has supplied OFC to all major telecom service providers in India. It also exports OFC to more than 30 countries. Besides, HFCL is a large contributor to the Government of India's flagship BharatNet Programme. Adding further strength to its OFC capabilities, HFCL's maiden optical fiber manufacturing unit at Hyderabad started commercial production from January 2020 and production of OFC commenced from December 2020. HFCL has also participated in PLI scheme announced by Government of India through its newly formed wholly owned subsidiary.

Financials (Consolidated)

For the year ended* As on	INR in Crore	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	4,422.96	4,727.11
EBITDA	549.58	650.07
PAT	246.24	325.87
Total Debt	919.62	729.78
Tangible Networth	1,848.43	2,713.12
EBITDA Margin (%)	12.43	13.75
PAT Margin (%)	5.52	6.83
Overall Gearing Ratio (x)	0.50	0.27

* Classification as per Infomerics' standards



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Financials (Standalone)

For the year ended* As on	INR in Crore	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	4,105.87	4,286.44
EBITDA	468.62	527.77
PAT	222.86	282.77
Total Debt	802.82	610.83
Tangible Networth	1,826.16	2,647.77
EBITDA Margin (%)	11.41	12.31
PAT Margin (%)	5.38	6.53
Overall Gearing Ratio (x)	0.45	0.23

* Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Dated September 29, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Fund based facility – Term Loan	Long Term	131.47	IVR A/ Stable	IVR A/ Stable	-	-
2.	Fund based facility – Cash Credit	Long Term	355.00	IVR A/ Stable	IVR A/ Stable	-	-
3.	Non-fund based facility – LC/BGs	Short Term	1,826.15	IVR A1	IVR A1	-	-

Name and Contact Details of the Rating Analysts:-



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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Term Loan	-	-	FY2027	131.47	IVR A/Stable



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Long Term Fund Based Facility – Cash Credit	-	-	-	355.00	IVR A/Stable
Short Term Non-Fund Based Facility – LC/BGs	-	-	-	1,826.15	IVR A1

Annexure 2: List of companies considered for consolidated analysis:

Name of the Subsidiary Company	Percentage of Holding
HTL Limited	74%
Polixel Security Systems Pvt. Ltd.	100%
Moneta Finance (P) Ltd.	100%
HFCL Advance Systems (P) Ltd.	100%
Raddef Pvt. Ltd.	90%
Dragon Wave HFCL India Pvt. Ltd.	100%
HFCL Technologies Pvt. Ltd. (Wholly owned Subsidiary w.e.f. June 26, 2021)	100%
HFCL Inc. (Wholly owned Subsidiary w.e.f. October 8, 2021)	100%
HFCL B.V. (Wholly owned Subsidiary w.e.f. October 7, 2021)	100%
Nimpaa Telecommunications Pvt. Ltd.	50%
BigCat Wireless Pvt. Ltd.	29.59%

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-HFCL-nov22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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.