Press Release

HFCL Limited

February 06, 2024

Ratings

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

Details of facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities of HFCL Limited factors in overall stable operating profile over FY23 and H1FY24 which is expected to remain stable over a medium term owing to healthy order book position and the company is in the process of shift to high margin product segment.

The ratings continue to derive strength from established track record of the group & experienced promoters, healthy order book position, 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:

- 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

Healthy Order book position with reputed clientele:

HFCL has a healthy order book of Rs.7,078.15 crores (including order under release of Rs. 2,231.30 crores) as on September 2023. The order book is diversified across public and private as well as various product segments. The total order book broadly consists of 73% execution contracts (manufactured goods) and balance are O&M contracts.

It has also secured an order from Bharat Sanchar Nigam Limited (BSNL) to transform the Optical Transport Network (OTN) infrastructure across Pan India network which is valued at Rs.1,127 crores.

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 Qualified Institutional Placement (QIP). In order to support the future expansion programs, and R&D initiatives, the company has successfully raised a sum of Rs.352 crore by way of QIP during August 2023.

The overall gearing of the company stood healthy at 0.32x at the end of FY23 (FY22:0.27x). TOL/TNW improved to 0.79x at the end of FY23 (FY22:0.87x). Further coverage indicators like interest coverage & DSCR stood comfortable in FY23 and expected to remain comfortable through FY24-FY26. The interest coverage stood at 7.38x in FY23 (8.72x: PY) and DSCR stood at 3.71x in FY23 (3.07x: PY).

Shift towards high margin product segment:

HFCL has shifted its business towards manufacturing and product focused player reflected by change in revenue mix in last three years.. Revenue from products stood at 41.01% in FY23 an increase from 27.14% in FY21, management is expecting contribution from product to be around 60% by FY25. OFC and Wi-Fi products have better operating margins and shorter collection period when compared to EPC business of the company and increased focus toward this segment is likely to enhance its overall profitability going forward.

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.

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.

Key Rating Weaknesses

Working capital intensive operations:

The average collection period has generally been on a higher and stood at 157 days in FY23 an increase as compared to135 days in FY22 due to higher proportion of revenue from government in the overall revenue. However, the company can 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:

Sales from top 5 customer for the turnkey contract & segment has been constantly declined on y-o-y basis though remained high and at 39.2% in FY23 as compared to 53.6% in FY21,. Customer mainly includes top corporate and public sector companies

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 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
Rating criteria for Consolidation of Companies

Liquidity - Adequate

The liquidity position of HFCL 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 September 2023. Further HFCL had cash & bank balance of Rs.688.69 crore as on March 31, 2023. The company has healthy gross healthy accrual (GCA) of Rs.426.14 crore in FY23. Current ratio stood at 2.13x.

About the Company

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

BharatNetProgramme. 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)

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	4,727.11	4,734.78
EBITDA	650.07	610.15
PAT	325.87	309.27
Total Debt	729.78	936.97
Tangible Net worth	2,713.12	2,969.24
EBITDA Margin (%)	13.75	12.89
PAT Margin (%)	6.83	6.47
Overall Gearing Ratio (x)	0.27	0.32

* *Classification as per Infomerics' standards*

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	4,286.44	4,395.68
EBITDA	527.77	466.49
PAT	282.77	254.60
Total Debt	610.83	824.86
Tangible Net worth	2,647.77	2,751.36
EBITDA Margin (%)	12.31	10.61
PAT Margin (%)	6.53	5.73
Overall Gearing Ratio (x)	0.23	0.30

* *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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Nov 23, 2022)	Date(s) & Rating(s) assigned in 2021-22 (Sept 29, 2021)	Date(s) & Rating(s) assigned in 2019-20
1.	Fund based facility – Term Loan	Long Term	131.47	IVR A/ Stable	IVR A/ Stable	IVR A/ Stable	-
2.	Fund based facility – Cash Credit	Long Term	355.00	IVR A/ Stable	IVR A/ Stable	IVR A/ Stable	-
3.	Non-fund-based facility – LC/BGs	Short Term	1,826.15	IVR A1	IVR A1	IVR A1	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Particulars	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
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-6feb24.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.