



Press Release

HFCL Limited

September 29, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loans	181.80	IVR A/ Stable (IVR A with Stable Outlook)	Assigned
Long Term Bank Facilities – Cash Credit	375.00	IVR A/ Stable (IVR A with Stable Outlook)	Assigned
Short Term Bank Facilities – LC/BGs	1842.02	IVR A1 (IVR A One)	Assigned
Total	2398.82		

Details of facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of HFCL Limited derives strength from the established track record of group and experienced promoters, strong order book position with reputed clientele, comfortable financial risk profile with healthy debt coverage indicators and strong demand potential for telecom products, optic fibre cables industry. However, these rating strengths are partially offset due to customer concentration risk, working capital intensive operations 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 due to elongated collection period.
- Substantial decline in profitability impacting debt protection matrix and liquidity.

Detailed Description of Key Rating Drivers



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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 telecom services. Its services majorly encompass design, planning & engineering of telecom networks, supply & laying of optical fibre cables, installation & commissioning of transmission equipment and subscriber access networks, installation of towers and operation and maintenance of the telecom network.

Strong Order book position with reputed clientele

HFCL has a strong order book position having firm orders to the tune of Rs.5884 crore as on June 30, 2021, of which orders to the tune of Rs.3343 crores are planned to be executed during FY2022. The order book of HFCL is diversified across public and private clients as well as various product segments. The order book broadly consists of 46% defence projects (DWDM, GOFNMS, MW Radios, IPMPLS, etc.), 7% optical fiber cable, 19% from Reliance Jio, 9% from Railway and balance from miscellaneous segments. Furthermore, the company has received direct contract for Kanpur Railway owing to its successful execution of past contracts.

Comfortable financial risk profile with healthy debt coverage indicators:

Financial risk profile of the company has remained healthy marked by healthy gearing & moderate total outside liability to adjusted total networth (TOL/ATNW) at 1.78x as on March 31, 2021 (1.36x: PY). The overall gearing of the company stood healthy at 0.50x as on March 31, 2021 (0.45x: PY). Further coverage indicators like interest coverage & DSCR stood very comfortable in FY21 at 5.27x in FY21 (6.42x: PY) and 2.90x in FY21 (3.12x: PY) respectively.

Robust manufacturing capabilities

The company has strong business capabilities with state-of-the-art manufacturing of OF, OFC and Wi-Fi systems, along with in-house R&D Centres at Bengaluru & Gurugram. HFCL has always been focusing on achieving growth by exploring new products/service as well as



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backward integration and has entered into new products like electronic fuse, night vision devices, software defined radio for catering to Defence sector under “make in India” programme. It has also expanded the capacity in OFC manufacturing, increased exports to new countries, diversified revenue mix, etc.

Strong demand potential for telecom products, optic fibre 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 FY21 to 198 days from 157 days in FY20 due to increase in government contracts involving milestone-based payments and procedural delays mainly due to the pandemic. During FY 21, execution and achievement of milestones also got impacted / delayed due to 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. thereby resulting in minimal impact on overall operating cycle.

Customer concentration risk

The company has a non-granular client profile. The top 10 customers comprise ~80% of total net sales in FY21, indicating lack of diversification in the client portfolio. The clientele are generally top corporate houses or public sector companies & are highly rated which provide reasonable degree of mitigation to lack of diversification in the portfolio.

Exposure to intense competition



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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 service providers. 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

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)

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 83% (average of monthly maximum utilisation) for the last 12 months ended June 2021. Further HFCL had cash & bank balance of Rs.306.44 crore as on March 31, 2021 (includes Rs.285.14 crore of margin money against NFB limits) and liquid investments of Rs. 5.79 crore as on March 31, 2021. The company has healthy gross healthy accrual (GCA) of Rs.323.49 crore in FY21 as against consolidated bank debt repayments of Rs.43.10 crore due in FY21.

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	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	3838.91	4422.96
EBITDA	494.08	549.58
PAT	237.33	246.24
Total Debt	711.65	919.62
Tangible Net Worth	1590.54	1848.43
EBITDA Margin (%)	12.87	12.43
PAT Margin (%)	6.15	5.52
Overall Gearing Ratio (x)	0.45	0.50

* Classification as per Infomerics' standards

Financials (Standalone)

For the year ended* As on	INR in Crore	
	31-03-2020	31-03-2021
	Audited	Audited



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Total Operating Income	3547.30	4105.87
EBITDA	427.22	468.62
PAT	203.82	222.86
Total Debt	610.28	802.82
Tangible Net Worth	1574.86	1799.46
EBITDA Margin (%)	12.04	11.41
PAT Margin (%)	5.71	5.38
Overall Gearing Ratio (x)	0.39	0.45

* Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facilities – Term Loans	Long Term	181.80	IVR A/ Stable	-	-	-
2.	Long Term Bank Facilities – Cash Credit	Long Term	375.00	IVR A/ Stable	-	-	-
3.	Short Term Bank Facilities – LC/BGs	Short Term	1842.02	IVR A1	-	-	-

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About Infomerics:



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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.

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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	-	-	Upto December 2027	169.61	IVR A/ Stable
Long Term Fund Based Facility – Term Loan under CELC	-	-	Upto June 2022	12.19	IVR A/ Stable
Long Term Fund Based Facility – Cash Credit	-	-	-	375.00	IVR A/ Stable
Short Term Non-Fund Based Facility – LCs	-	-	-	1050.04	IVR A1
Short Term Non-Fund Based Facility – LCs	-	-	-	791.98	IVR A1



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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%

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/HFCL-Lenders-29sep21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loans	Simple
2.	Cash Credit	Simple
3.	Letter of Credit	Simple
4.	Bank Guarantee	Simple

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.