



HPL Electric & Power Ltd.

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CIN No. : U74899DL1992PLC048945

23rd November, 2016

BSE Limited,
P.J. Towers,
Dalal Street, Fort
Mumbai-400 001
Scrip Code: 540136

National Stock Exchange of India Limited,
Exchange Plaza, C-1, Block G
Bandra Kurla Complex, Bandra East
Mumbai-400 051
Symbol: HPL

Subject: Disclosure under Regulation 30 of SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir,

In terms of Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with corresponding circulars and notifications issued thereunder, it is hereby informed that the India Ratings and Research Pvt. Ltd. has assigned the following rating to various instruments/bank facilities of the company which are as follows:

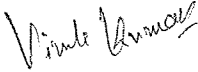
Facilities	Ratings
Long Term	Upgraded to 'IND A' with Positive outlook from 'IND A-'with Stable outlook
Short Term	'IND A1' Reaffirmed
Commercial Paper	'IND A1' Reaffirmed

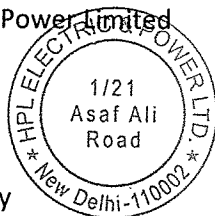
A copy of the Key Rating Drivers is also annexed herewith.

This is for your information and record Pl.

Thanking You

For HPL Electric & Power Limited


(Vivek Kumar)
Company Secretary



India Ratings Upgrades HPL Electric & Power to 'IND A'/Positive

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By Priyanka Bansal

NOV 2016

India Ratings and Research (Ind-Ra) has upgraded HPL Electric & Power Limited's (HPL) Long-Term Issuer Rating to 'IND A' from 'IND A-'. The Outlook is Positive. The agency has also affirmed the short-term ratings on HPL's bank facilities at 'IND A1'. Ind-Ra placed HPL's ratings on Rating Watch Positive (RWP) in October 2016. A full list of rating actions is at the end of the commentary.

Ind-Ra has taken a consolidated view of HPL and its subsidiary Himachal Energy Private Limited (HEPL; 'IND A-/RWP) while arriving at the ratings, given the strong operational, legal and strategic linkages between the two entities. HEPL became a 97.15% subsidiary of HPL on 9 May 2016.

KEY RATING DRIVERS

Improvement in Consolidated Credit Metrics: The upgrade reflects the likelihood of an improvement in the consolidated credit metrics in FY17, due to a reduction in the overall net debt to INR2.5bn in 1HFY17 from INR5.5bn at FYE16. Using the proceeds of INR3.6bn from an initial public offer in September 2016, the company fully prepaid its term loans and reduced its working capital borrowings in October 2016. Ind-Ra expects the consolidated net leverage to reduce to around 1x in FY17 from 3.2x in FY16 and stay below 2x over the next two years. Similarly, gross interest coverage is likely to increase to 2x-3x from 1.8x and further to above 3.5x.

Working Capital requirements Likely to Decline: The group's net working capital cycle increased in 1HFY17 to 228 days from 162 days in FY16 due to an increase in debtor days to 175 from 166 as well as in inventory days to 179 from 121. This was on account of delays in the offtake of orders as well as in the receipt of payments from state power utilities for the meter segment. HPL is working on a two-pronged strategy to lower its receivable days in the consumer facing business by increasing its brand awareness and introducing channel/vendor financing for its distributors by end-November 2016. Moreover, HPL has changed its business model to carrying and forwarding from consignee, for better control over receivables and inventory.

Limited Expansion Capex: The group has not planned any further significant capex, as the capex incurred over FY12-FY16 would be sufficient for achieving the revenue scale of INR18bn-INR20bn. Also, HPL's fixed asset turnover ratio has remained lower than industry average. This is because the company has relied on in-house manufacturing, in contrast to the outsourced manufacturing followed by other electrical good manufacturers. As HPL scales up its revenue, its asset turnover is likely to increase. Additionally, the management would look at a capex light model for the revenue scale up post the full capacity utilisation of the existing facilities.

EBITDA Margins Increased in FY16: Consolidated EBITDA margins improved in FY16 to 13.8% (FY15: 13.2%), primarily driven by a higher share of meters sales (FY16: 50%; FY15: 46%) and an increase in the margins in the meter segment (FY16: 21%; FY15: 18%). During 1HFY17, the EBITDA margins improved marginally to 13.5% (1HFY16: 13.4%) as the proportion of un-allocable expenses in the sales declined to 5.3% (6.1%) and because of an improvement in margins in the cables and switchgear segment. However, the same was to some extent offset by the decline in margins in the lighting segment and meters segment. Despite the likelihood of a decline in the revenue in FY17, Ind-Ra believes the EBITDA margin will remain between 11.5%-12.5% in FY17 due to the increased share of the higher-margin meter segment. The margins would be a function of the segment mix, scale up of revenue and the brand expenses incurred by the company.

Muted Revenue Growth in FY16-FY17: The group's revenue growth remained muted in FY16 at 7% yoy to INR11.9bn, driven by 7%, negative 20%, 17% and 13% growth in the meters, switchgear, lighting and cable segments, respectively. The negative growth in the switchgear segment was on account of a slowdown in the real estate and construction activities. The growth in the lighting segment was driven by the government's focus on the replacement of bulbs with LEDs. Revenue declined 22% yoy in 1HFY17 to INR4.6bn due to the slower off-take of meters by the state power utilities, a reduction of revenue from the lighting segment on account of reduced business from Energy Efficiency Services Limited which contributed one-third to the lighting segment revenue in FY16 and a drop in sales in wires on account of a drop in commodity prices. Ind-Ra expects the overall revenue to decline by 25%-30% yoy in FY17. Revenue is also likely to be affected by the currency demonetisation announced by the Indian government in November 2016.

The Positive Outlook reflects Ind-Ra's expectation of healthy revenue growth during FY18, along with healthy operating margins and gross interest coverage of above 3.5x.

RATING SENSITIVITIES

Positive: Sustainability or improvement in the consolidated EBITDA margins along with revenue growth and ability of the companies to manage their working capital cycles during FY18 leading to a significant improvement in the consolidated gross interest coverage will lead to a rating upgrade.

Negative: Decline in the consolidated revenue along with lower-than-expected consolidated EBITDA margins during FY18 would lead to a Stable Outlook.

COMPANY PROFILE

HPL was incorporated in 1992. The company manufactures electronic meters, low voltage switch gears, protection devices, cables and lighting units. The company has fund-based limits of INR4,165m and non-fund-based limits of INR6,230m.

HPL's ratings are as follows:

- Long-Term Issuer Rating: upgraded to 'IND A' from 'IND A-'; Outlook Positive; off RWP
- INR4,160m fund-based working capital facilities (increased from INR3,870m): upgraded to 'IND A'/Positive from 'IND A-(RWP)' and affirmed at 'IND A1'; off RWP
- INR6,230m non-fund-based limits (increased from INR5,250m): upgraded to 'IND A'/Positive from 'IND A-' and affirmed at 'IND A1'; off RWP
- Proposed INR90m working capital facilities (reduced from INR1,360m): upgraded to 'Provisional IND A'/Positive from 'Provisional IND A-' and affirmed at 'Provisional IND A1'; off RWP

- INR2,700m commercial paper (carved out of fund-based facilities): affirmed at 'IND A1'; off RWP
- INR1,395.1m long-term loans: 'IND A-/RWP' rating withdrawn as the loans have been paid in full

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

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Rating Outstanding

(As on 23/Nov/2016)

Long Term Issuer Rating	IND A / Positive	
Commercial Paper	IND A1 / Rating Watch Off	INR 2700 m
Fund Based Working Capital Limit	IND A / Positive	INR 4160 m
Fund Based Working Capital Limit	IND A1 / Rating Watch Off	INR 4160 m
Fund/Non-Fund Based Working Capital Limit	Provisional IND A / Positive	INR 90 m
Fund/Non-Fund Based Working Capital Limit	Provisional IND A1 / Rating Watch Off	INR 90 m
Non-Fund Based Working Capital Limit	IND A / Positive	INR 6230 m
Non-Fund Based Working Capital Limit	IND A1 / Rating Watch Off	INR 6230 m
Term loan	WD / Rating Watch Off	INR 1395.1 m

Applicable Criteria

Analyst Names

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