



HPL Electric & Power Limited

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7th July, 2018

The Manager,
Listing Department,
National Stock Exchange of India Ltd.
"Exchange Plaza", C-1, Block G,
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051
Symbol: HPL

BSE Limited
25th Floor, New Trading Ring,
Rotunda Building,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001
Scrip Code: 540136

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

Dear Sir

This has reference to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the India Ratings and Research Pvt. Ltd. vide its letter dated 6th July, 2018, has revised the ratings to various instruments/bank facilities of the company. The copy of the same is enclosed herewith for your reference.

Kindly take the same on record.

Thanking You

Yours Faithfully
For HPL ELECTRIC & POWER LIMITED

Vivek Kumar
Company Secretary

Encl: As above

India Ratings Downgrades HPL Electric & Power to 'IND A-'/Stable; Limits Enhanced

06

JUL 2018

By [Bhanu Patni](#)

India Ratings and Research (Ind-Ra) has downgraded HPL Electric & Power Limited's (HPL) Long-Term Issuer Rating to 'IND A-' from 'IND A'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR4,610 (increased from INR3,750)	IND A-/Stable/IND A1	Long-term rating downgraded; Short-term rating affirmed
Non-fund-based working capital limits	-	-	-	INR6,650 (increased from INR5,780)	IND A-/Stable/IND A1	Long-term rating downgraded; Short-term rating affirmed
Proposed working capital facilities	-	-	-	INR470	WD	Withdrawn (the company did not proceed with the instrument as envisaged)
Commercial paper (CP)	-	-	Three-six months	INR3,200	IND A1	Affirmed

Ind-Ra continues to take a consolidated view of HPL and its subsidiary Himachal Energy Private Limited ('IND A-/Stable') to arrive at the ratings, as they have strong operational, legal and strategic linkages.

The downgrade reflects an increase in HPL's net leverage against Ind-Ra's expectation of a moderation. The increase in the leverage was due lower-than-expected revenue growth and EBITDA margin.

KEY RATING DRIVERS

Increase in Net Leverage: HPL's net leverage (net debt/EBITDA) increased to 4.4x in FY18 from 3.3x in FY17 due to i) a decline in EBITDA margin; ii) a lower net asset turnover, and iii) continued capex on facility upgradation/re-tooling/backward integration. The benefits of the integration have taken longer to materialise. As a result of higher working capital commensurate with the increase in revenues and capex requirements, the gross debt increased to INR4.9 billion in FY18 from INR3.8 billion in FY17. Furthermore, owing to a high gross debt level in relation to EBITDA, HPL's interest coverage (EBITDA/interest expense) remained lower than Ind-Ra's expectation, albeit improved, at 2.1x in FY18 (FY17: 1.8x).

Decline in EBITDA Margin: HPL's EBITDA margin declined to 10.6% in FY18 from 12.6% in FY17 due to margin contraction across all of its key segments. The contraction was owing to an increase in the prices of commodities and raw materials, particularly copper and aluminium and poly carbonate; higher competition; and a 17% yoy increase in employee expenses. The EBITDA margins of the meter, switchgear, lighting and wires segments declined to 17.3%, 22.5%, 11.8% and 7.0% in FY18 from 17.8%, 23.2%, 14.7% and 8.0% in FY17, respectively.

The margin could remain in the range of 10.0%-10.5% in FY19 in view of an increase in the price of its key raw material and higher brand promotion expenses, which would be offset to a certain extent by better fixed cost absorption on account of higher revenue.

Decline in Net Asset Turnover: Since FY12, HPL has been incurring a capex of nearly INR0.5 billion annually on retooling/facility upgradation/backward integration, which was likely to result in a rise in EBITDA margin. However, the margin did not increase in line with Ind-Ra's expectations due to lower absorption of fixed costs as revenue growth has been lower leading to lower absorption of fixed costs.

HPL's net fixed asset turnover declined to 2.57x in FY18 from 2.63x in FY17 and 3.06x in FY16. HPL's return on invested capital declined to 7.0% in FY18 from 9.0% in FY17 and 12.0% in FY16 due to a lower EBITDA margin, an increase in the leverage and a lower net asset turnover.

Long Working Capital Cycle: The net working capital of HPL remained long at 271 days in FY18 (FY17: 266 days), contrary to Ind-Ra's expectation of a decline. HPL saw a decline in its debtor days to 165 in FY18 (FY17: 174) due to the benefits of channel/vendor financing and better payments from state power utilities in the meter segment. However at FYE18, 35.0% (FY17: 23.3%) of the debtors outstanding were in the 91-150-day bucket and 15.1% (18.9%) of the debtors outstanding were in the above 151-day bucket.

Moreover, HPL's inventory days increased to 220 in FY18 from 204 in FY17 owing to the stock-up of inventory due to a rise in the lead time for the procurement of some key raw materials. As a result, the average fund-based working capital utilisation was high at 80% for the 12 months ended May 2018.

Ind-Ra expects the cycle to remain high, though there could be some moderation, if the lead time on certain inventory item normalises.

Revenue Growth; Healthy Revenue Visibility: HPL's net revenue increased 5.0% yoy to INR10.4 billion in FY18 from INR9.9 billion in FY17. The low revenue growth was due to the implementation of the goods and services tax; HPL's key products initially fell under the 28.0% tax bracket. However, the tax rate was later lowered to 18.0%, leading to revenue growth of 25.6% in 2HFY18 over the 1HFY18 level. Ind-Ra expects further revenue growth in FY19, considering HPL had an order book of INR531 million (up 43.0% yoy) as of May 2018. The meter segment represented INR477 million of the order book.

Diversified Revenue Base: The meter segment accounted for 50.0% of revenue in FY18 (FY17: 47.0%), followed by the switchgear segment (19.0%; 18.0%), the lighting segment (18.0%; 21.0%) and the cables segment (13.0%; 13.0%).

RATING SENSITIVITIES

Positive: A substantial increase in the revenue and EBITDA, an improvement in the net working capital cycle and a decline in debt, leading to the interest coverage exceeding 3.0x, on a sustained basis, could lead to a positive rating action.

Negative: A decline in the revenue and EBITDA, further deterioration in the net working capital cycle and an increase in debt, leading to the interest coverage reducing below 1.75x, on a sustained basis, could lead to a negative rating action.

COMPANY PROFILE

Incorporated in 1992, HPL manufactures electronic meters, low-voltage switchgears, protection devices, cables and lighting units.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR billion)	10,363	9,862
EBITDA (INR billion)	1,099	1,238
EBITDA margin (%)	10.6	12.6
Gross interest coverage (x)	2.1	1.8
Net financial leverage (x)	4.4	3.3
Source: HPL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	16 August 2017	23 November 2016	2 March 2016
Issuer rating	Long-term	-	IND A-/Stable	IND A/Stable	IND A/Positive	IND A-/Stable
Fund-based working capital limits	Long-/short- term	INR4,610	IND A-/Stable/IND A1	IND A/Stable/IND A1	IND A/Positive/IND A1	IND A-/Stable/IND A1
Non-fund-based working capital limits	Long-/short- term	INR6,650	IND A-/Stable/IND A1	IND A/Stable/IND A1	IND A/Positive/IND A1	IND A-/Stable/IND A1
Proposed working capital facilities	Long-/short-term	INR470	WD	Provisional IND A/Stable/Provisional IND A1	Provisional IND A/Positive/Provisional IND A1	Provisional IND A-/Stable/Provisional IND A1
CP	Short-term	INR3,200	IND A1	IND A1	IND A1	IND A1

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

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Applicable Criteria

[Corporate Rating Methodology](#)

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