July 02, 2021

H.G. Infra Engineering Limited: Long-term rating upgraded to [ICRA]A+ and short term rating reaffirmed at [ICRA]A1; outlook revised to 'Positive' from 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	140.00	140.00	[ICRA]A+, upgraded from [ICRA]A; outlook revised to Positive from Stable
Non-fund Based – Bank Guarantee	1312.00	1312.00	[ICRA]A1, reaffirmed
Long-term/Short-term Non-fund Based – Bank Guarantee	88.00	88.00	[ICRA]A+/[ICRA]A1 upgraded from [ICRA]A/[ICRA]A1; outlook revised to Positive from Stable
Total	**1540.00**	**1540.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in long-term rating and revision in rating outlook to 'Positive' takes into account the healthy growth in revenue at a CAGR of 22% during FY2018 and FY2021 on the back of improved order book along with timely execution; the revenue growth is expected to be sustained over the medium term on the back of strong order book position of Rs. 7040 crore as on March 31, 2021. The revenues increased by 15% in FY2021 to Rs. 2528 crore despite adverse impact of the pandemic on project execution in H1FY2021. The operating profit margins also improved to 16.2% in FY2021 from 15.6% in FY2020 supported by reduced dependence on sub-contracting expenses and scale benefits. The rating upgrade also factors in improvement in working capital intensity to 7% in FY2021 from 16% in FY2020 with recovery of payments from Public Works Department in Rajasthan; the working capital intensity is expected to remain at low levels going forward with majority of order book comprising own Hybrid Annuity Model (HAM) and EPC works from reputed customers. The rating upgrade also considers reduction in project risk with its HAM projects running ahead of their schedule and three of the four under construction HAM projects expected to be completed in FY2022. Timely completion of these HAM projects within budgeted costs and release of corporate guarantees extended to the debt availed by its HAM SPVs remains a key rating monitorable in the near term. The ratings continue to draw comfort from the promoters' long track record of over four decades in the civil construction business; and diversified client portfolio consisting of Government bodies like National Highways Authority of India (NHAI), Ministry of Road Transport and Highways (MoRTH), and private road developers like IRB Infrastructure Developers Limited, Tata Projects Limited, Adani Road Transport Limited etc.

The ratings, however, remain constrained by the high TOL/TNW of 1.42 times as of March 31, 2021 owing to high mobilisation advances and trade creditors. Further, the ratings factor in sizeable equity commitment and pending execution related risks for the HAM portfolio. HGEIL has a total of 7 HAM projects (4 ongoing and 3 recently awarded), and has a total equity commitment of ~Rs. 725 crore. Of this, HGIEL has infused Rs. 261 crore as of March 31, 2021 and the balance Rs 464 crore equity is expected to be infused over the next three years. The estimated cash flow from operations is expected to remain sufficient to take care of the scheduled debt repayments and equity commitments towards the HAM projects. The heightened competition in the road sector along with steep increase in input costs (steel, cement etc.) could exert pressure on HGIEL's profitability. However, the presence of a price escalation clauses in these contracts mitigates the risk to an extent.

The positive outlook on the long-term rating reflects ICRA's opinion that the company is expected to sustain revenue growth and maintain comfortable liquidity position on the back of timely receipt of payments from its customers.

Key rating drivers and their description

Credit strengths

Healthy revenue growth over the past three years – The revenues witnessed a healthy growth at a CAGR of 22% during FY2018 and FY2021 on the back of improved order book along with timely execution; the revenue growth is expected to be sustained over the medium term on the back of strong order book position of Rs. 7040 crore as on March 31, 2021. The revenues increased by 15% in FY2021 to Rs. 2528 crore despite adverse impact of the pandemic on project execution in H1FY2021. The operating profit margins also improved to 16.2% in FY2021 from 14.9% in FY2018 supported by reduced dependence on sub-contracting expenses and scale benefits.

Strong order book position – HGIEL's order book position remains strong at Rs. 7040 crore as of March 31, 2021 (comprising of Rs. 2860 crore of HAM projects and Rs. 4180 crore of EPC projects). The order book to OI ratio is healthy at ~2.8 times providing medium term revenue visibility. The order book remains geographically diversified with current orders in states of Rajasthan, Haryana, Uttar Pradesh, Telangana, Andhra Pradesh and Maharashtra.

Reputed and diversified customer profile – HGIEL's customer base includes Government bodies like NHAI, MoRTH, and private road developers like Modern Road Makers Limited (SPV of IRB Infrastructure Developers Limited), Tata Projects Limited, Adani Road Transport Limited etc. It has also executed orders for public works departments, R&B divisions and state road project divisions of various states like Rajasthan, Uttar Pradesh and Maharashtra etc. The counterparty credit risk remains low given the reputed client profile.

Credit challenges

High TOL/TNW due to sizeable mobilisation advances and trade creditors – The TOL/TNW is high at 1.42 times as of March 31, 2021 owing to sizeable mobilisation advances of Rs. 324 crore and trade payables. Further, TOL/TNW is expected to increase in the medium term with addition of debt for ongoing HAM projects. ICRA notes that release of corporate guarantees extended to the debt availed by its HAM SPVs remains a key rating monitorable in the near term.

Sizeable equity commitment and execution risks related to HAM projects – HGIEL has a total of 7 HAM projects (4 ongoing and 3 recently awarded), and has a total equity commitment of ~Rs. 725 crore. HGIEL has already infused Rs. 261 crore as of March 31, 2021 and the balance Rs 464 crore equity is to be infused over the next 3 years (FY2022 – Rs 259 crore, FY2023 – Rs 95 crore and FY2024 – Rs 110 crore). The under-construction HAM projects are running ahead of their schedule with three of the four under construction HAM projects expected to be completed in FY2022. Timely completion of these HAM projects within budgeted costs and release of corporate guarantees extended to the debt availed by its HAM SPVs remains a key rating monitorable in the near term.

Intense competition; vulnerability to price fluctuations – The heightened competition in the road sector along with steep increase in input costs (steel, cement etc.) could exert pressure on HGIEL's profitability. However, the presence of a price escalation clauses in these contracts mitigates the risk to an extent. There is a risk of reduction in the work flow in case of any prolonged downcycle in the road construction sector, as almost entire order book (~95%) consists of road works.

Liquidity position: Adequate

HGIEL's average utilisation of the fund-based limits during the last 6 month period ended in April 2021 is moderate at 57% due to reduced working capital intensity. The company has repayments of Rs. 62 crore and equity commitment of Rs. 259 crore in FY2022. The estimated cash flow from operations is expected to sufficient to take care of repayments and equity commitments in FY2022.

Rating sensitivities

Positive factors – Timely completion of HAM projects and reduction of contingent liabilities or corporate guarantees towards the HAM projects would support a rating upgrade. Further, if the company sustains improvement in scale whilst maintaining the profitability margins along with improvement in liquidity position would also support the rating upgrade.

Negative factors – Pressure on the ratings could materialise if the financial risk profile weakens due to a slowdown in the execution, moderation in profitability or any increase in the working capital cycle. The ratings may be downgraded if delay in the execution of the ongoing HAM projects or significant increase in commitment towards HAM projects leads to a weakened liquidity position and TOL/TNW of above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the three entities where HGIEL has extended corporate guarantees for the entire tenure of the debt. For other entities, ICRA has used the limited consolidation approach, under which the proposed equity investments for under construction projects have been considered. The list of companies considered for limited/full consolidation are given in Annexure 2 below

About the company

H.G. Infra Engineering Limited was incorporated in 2003 by Mr. Hodal Singh Choudhary, Mr. Girish Pal Choudhary, Mr. Vijendra Singh Choudhary and Mr. Harendra Singh Choudhary in Jodhpur, Rajasthan. It is primarily involved in infrastructure development and the construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana, Maharashtra, Andhra Pradesh and Telangana. In FY2018, the company successfully concluded its IPO. HGIEL is accredited AA class by Public Works Department (PWD) of the Government of Rajasthan (GoR) and is also registered as an SS class contractor by the Military Engineer Services (MES).

Key financial indicators (audited) - Standalone

	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	2,010	2,196	2,528
PAT (Rs. crore)	124	166	211
OPBDIT/OI (%)	15.1%	15.6%	16.2%
PAT/OI (%)	6.1%	7.5%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5	1.1
Total Debt/OPBDIT (times)	1.3	1.1	0.7
Interest Coverage (times)	6.2	6.5	6.9

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *Limited review*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Jul 02, 2021	Jan 25, 2021	Jan 07, 2021	Dec 20, 2019	Mar 01, 2019	Jun 22, 2018
1	Cash Credit	Long-term	140.00	NA	**[ICRA]A+ (Positive)**	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Letter of Credit and Bank Guarantee	Short-term	1312.00	NA	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Bank Guarantee	Long-term/Short-term	88.00	NA	**[ICRA]A+ (Positive)/ [ICRA]A1**	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Letter of Credit	Very Simple
Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	140.00	[ICRA]A+ (Positive)
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	1312.00	[ICRA]A1
NA	Bank Guarantee	NA	NA	NA	88.00	[ICRA]A+ (Positive)/ [ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gurgaon Sohna Highway Private Limited	100.00%	Full Consolidation
H.G. Ateli Narnaul Highway Private Limited	100.00%	Full Consolidation
H.G. Rewari Bypass Private Limited	100.00%	Full Consolidation
H.G. Rewari Ateli Highway Private Limited	100.00%	Limited Consolidation

ANALYST CONTACTS

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Anuja Shah
+91 79 4027 1530
anuja.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches