

December 13, 2021

H.G. Infra Engineering Limited: Ratings reaffirmed for the bank lines; rating assigned for Non-convertible debenture programme

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+(Positive), reaffirmed
Non-fund Based – Bank Guarantee	1312.00	1300.00	[ICRA]A1, reaffirmed
Long-term/Short-term Non-fund Based – Bank Guarantee	88.00	100.00	[ICRA]A+ (Positive)/[ICRA]A1, reaffirmed
Non-convertible Debenture (NCD) Programme [^]	-	97.00	[ICRA]A+ (Positive), assigned
Total	1540.00	1637.00	

*Instrument details are provided in Annexure-1 [^]NCD's yet to be placed

Rationale

The assignment/reaffirmation of ratings with a 'Positive' outlook 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 revenues improved by 31% on annualised basis to Rs. 1661 crore in H1FY2022 from Rs. 2528 crore in FY2021 and the growth is expected to be sustained over the medium term on the back of strong order book position of Rs. 6855 crore as on September 30, 2021. The operating profit margins also improved to 16.2% in FY2021 and 16.3% in H1FY2022 from 15.6% in FY2020 supported by scale benefits and reduced dependence on sub-contracting expenses. The ratings also factor 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 ratings also consider reduction in project risk 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. 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 consolidated 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 10 HAM projects (4 ongoing and 6 newly awarded), and has a total equity commitment of ~Rs. 1,143 crore. Of this, HGEIL has infused Rs. 261 crore as of March 31, 2021 and the balance Rs. 882 crore equity is expected to be infused over the next four years. The estimated cash flow from operations along with the NCD proceeds is expected to be sufficient for 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 HGEIL'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 credit profile of company is expected to strengthen in the backdrop of sustained revenue growth and profitability, while maintaining 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 revenues improved by 31% on annualised basis to Rs. 1661 crore in H1FY2022 from Rs. 2528 crore in FY2021 and the growth is expected to be sustained over the medium term on the back of strong order book position of Rs. 6855 crore as on September 30, 2021. The operating profit margins also improved to 16.2% in FY2021 and 16.3% in H1FY2022 from 15.6% in FY2020 supported by reduced dependence on sub-contracting expenses and scale benefits.

Strong order book position – HGIEL's order book position remains strong at Rs. 6843 crore as of September 30, 2021 (comprising of Rs. 2768 crore of HAM projects and Rs. 4075 crore of EPC projects). In October 2021, the company has received two new HAM orders cumulatively worth Rs. 2615 crore. The order book to OI ratio is healthy at ~2.7 times providing medium term revenue visibility. The order book remains geographically diversified with current orders in states of Rajasthan, Haryana, Uttar Pradesh, Telangana etc.

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), 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 consolidated 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 10 HAM projects (4 ongoing and 6 recently awarded), and has a total equity commitment of ~Rs. 1143 crore. HGIEL has already infused Rs. 261 crore as of March 31, 2021 and the balance Rs. 882 crore equity is to be infused over the next 4 years (FY2022 – Rs 309 crore, FY2023 – Rs. 308 crore, FY2024 – Rs. 160 crore and FY2025- Rs. 105 crore). Three of the four under construction HAM projects are expected to be completed in FY2022. Timely completion of these HAM projects within budgeted costs remains a key rating sensitivity.

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 12-month period ending in October 2021 is moderate at 59% due to reduced working capital intensity. The company has repayments of ~Rs. 67 crore and equity commitment of Rs. 309 crore in FY2022. The estimated cash flow from operations coupled with NCD proceeds is expected to be sufficient for 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	H1FY2022*
Operating Income (Rs. crore)	2,010	2,196	2,528	1661
PAT (Rs. crore)	124	166	211	159
OPBDIT/OI (%)	15.1%	15.6%	16.2%	16.3%
PAT/OI (%)	6.1%	7.5%	8.3%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5	1.1	0.8
Total Debt/OPBDIT (times)	1.3	1.1	0.7	0.5
Interest Coverage (times)	6.2	6.5	6.9	11.1

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				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Current Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
							Jan 25, 2021	Jan 07, 2021		Mar 01, 2019	Jun 22, 2018
1	Cash Credit	Long-term	140.00	NA	[ICRA]A+ (Positive)	[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	1300.00	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Bank Guarantee	Long-term/Short-term	100.00	NA	[ICRA]A+ (Positive)/[ICRA]A1	[ICRA]A+ (Positive)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	-
4	Non-Convertible Debentures	Long-term	97.00 [^]	NA	[ICRA]A+ (Positive)	-	-	-	-	-	-

[^]NCD's yet to be placed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Bank Guarantee	Very Simple
Non-convertible Debenture	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/Banker's Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
HDFC Bank Limited	Cash Credit	NA	NA	NA	25.00	[ICRA]A+ (Positive)
ICICI Bank Ltd.	Cash Credit	NA	NA	NA	1.00	[ICRA]A+ (Positive)
Punjab National Bank(OBC)	Cash Credit	NA	NA	NA	25.00	[ICRA]A+ (Positive)
Yes Bank	Cash Credit	NA	NA	NA	10.00	[ICRA]A+ (Positive)
Union Bank of India	Cash Credit	NA	NA	NA	14.00	[ICRA]A+ (Positive)
State Bank of India	Cash Credit	NA	NA	NA	20.00	[ICRA]A+ (Positive)
Bank of Baroda	Cash Credit	NA	NA	NA	2.00	[ICRA]A+ (Positive)
IDFC Bank Ltd.	Cash Credit	NA	NA	NA	10.00	[ICRA]A+ (Positive)
IndusInd Bank Ltd.	Cash Credit	NA	NA	NA	5.00	[ICRA]A+ (Positive)
Axis Bank Ltd.	Cash Credit	NA	NA	NA	10.00	[ICRA]A+ (Positive)
Indian Bank	Cash Credit	NA	NA	NA	10.00	[ICRA]A+ (Positive)
Karnataka Bank	Cash Credit	NA	NA	NA	5.00	[ICRA]A+ (Positive)
Bank of India	Cash Credit	NA	NA	NA	3.00	[ICRA]A+ (Positive)
HDFC Bank Limited	Letter of Credit/Bank Guarantee	NA	NA	NA	129.00	[ICRA]A1
ICICI Bank Ltd.	Letter of Credit/Bank Guarantee	NA	NA	NA	94.00	[ICRA]A1
Punjab National Bank(OBC)	Letter of Credit/Bank Guarantee	NA	NA	NA	105.00	[ICRA]A1
Yes Bank	Letter of Credit/Bank Guarantee	NA	NA	NA	140.00	[ICRA]A1
Union Bank of India	Letter of Credit/Bank Guarantee	NA	NA	NA	140.00	[ICRA]A1
State Bank of India	Letter of Credit/Bank Guarantee	NA	NA	NA	65.00	[ICRA]A1
Bank of Baroda	Letter of Credit/Bank Guarantee	NA	NA	NA	48.00	[ICRA]A1
IndusInd Bank Ltd.	Letter of Credit/Bank Guarantee	NA	NA	NA	115.00	[ICRA]A1
RBL Bank Ltd.	Letter of Credit/Bank Guarantee	NA	NA	NA	62.50	[ICRA]A1
Axis Bank Ltd.	Letter of Credit/Bank Guarantee	NA	NA	NA	80.00	[ICRA]A1
Federal Bank Ltd.	Letter of Credit/Bank Guarantee	NA	NA	NA	55.00	[ICRA]A1
Indian Bank	Letter of Credit/Bank Guarantee	NA	NA	NA	40.00	[ICRA]A1
Karnataka Bank	Letter of Credit/Bank Guarantee	NA	NA	NA	70.00	[ICRA]A1
Bank of India	Letter of Credit/Bank Guarantee	NA	NA	NA	90.00	[ICRA]A1
Proposed	Letter of Credit/Bank Guarantee	NA	NA	NA	66.50	[ICRA]A1

IDFC Bank Ltd.	Bank Guarantee	NA	NA	NA	100.00	[ICRA]A+ (Positive)/ [ICRA]A1
Yet to be placed	Non-convertible Debenture	NA	NA	NA	97.00	[ICRA]A+ (Positive)

Source: Company, Yes Bank, RBL Bank have Rs.10 crore. interchangeable and Federal Bank has Rs. 15 crore interchangeable. limit from letter of credit/bank guarantee to cash credit.

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

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@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



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.