April 26, 2022 (Revised)

H.G. Infra Engineering Limited: Ratings upgraded to [ICRA]AA-/[ICRA]A1+; outlook revised to Stable from Positive

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]AA-, upgraded from [ICRA]A+; outlook revised to Stable from Positive
Non-fund Based – Bank Guarantee	1300.00	1300.00	[ICRA]A1+, upgraded from [ICRA]A1
Long-term/Short-term Non-fund Based – Bank Guarantee	100.00	100.00	[ICRA]AA-/[ICRA]A1+ upgraded from [ICRA]A+/[ICRA]A1; outlook revised to Stable from Positive
Non-convertible Debenture (NCD) Programme	97.00	97.00	[ICRA]AA-, upgraded from [ICRA]A+; outlook revised to Stable from Positive
Total	**1637.00**	**1637.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade takes into account H.G. Infra Engineering Limited's (HGIEL) robust revenue growth at a CAGR of 26% in FY2018 and FY2022e on the back of a healthy order book along with an improved order execution. The revenue growth is expected to be sustained over the medium term on the back of a strong estimated order book position of Rs. 7,802 crore as on March 31, 2022. The ratings upgrade also considers the completion[1] of three of the under-construction HAM projects without any cost overruns of which two projects are eligible to receive early completion bonus. Consequently, the corporate guarantees provided by HGIEL to these SPVs are expected to be released in line with the sanction terms, reducing the contingent liabilities. Further, the new HAM projects achieved financial closure without any corporate guarantee from HGIEL. The ratings continue to draw comfort from the promoters' long track record of over four decades in the civil construction business and a reputed client portfolio consisting of Government bodies like the National Highways Authority of India (NHAI) and the Ministry of Road Transport and Highways (MoRTH), and private road developers like Adani Road Transport Limited, Tata Projects Limited, etc which results in low counterparty credit risk.

HGIEL has nine HAM projects (three received PCOD, one is under-construction, five newly awarded) and has a total equity commitment of ~Rs. 1,137 crore. Of this, HGIEL had infused ~Rs. 355 crore as on March 31, 2022 and the balance Rs. 782 crore of equity is expected to be infused over the next three years. The estimated cash flow from operations[2] along with existing cash balances is expected to be sufficient for the equity commitments towards these HAM projects and the scheduled debt repayments. Moreover, the company is planning to monetise a few of its completed HAM projects over the next 12-24 months, which if materialises should aid in unlocking capital and improving liquidity.

Given the presence of cross-default clauses at HGIEL with its SPVs, ICRA had consolidated the debt of the under-construction HAM projects while excluding the completed projects as the credit profile of the under construction projects is closely linked to that of sponsor while the operational projects are self-sustainable. With these adjustments, the TOL/TNW was high at 1.01 times (against standalone TOL/TNW of 0.92 times) as on March 31, 2022 owing to high mobilisation advances and trade

[1] Achieved provisional commercial operations date (PCOD) in H2FY2022

[2] Including recovery of ~Rs 100 crore from sticky receivable

creditors and is estimated to increase to 1.46 times (against standalone TOL/TNW of 0.94 times) as on March 31, 2023 with the drawdown of debt for new projects.

The ratings also factor in the pending execution risks for the newly awarded HAM projects but the strong track record of HGIEL in timely completing the projects mitigates the risk to an extent. The heightened competition in the road sector along with the steep increase in input costs (steel, cement etc.) could exert pressure on HGIEL's profitability despite the presence of price escalation clauses in these contracts. The operating profit margin is expected to decline marginally in the near term from 16.2% in FY2021 but is expected to remain healthy at around 15%. The company also remains exposed to high segment and client concentration risks with the entire order book consisting of road works, mainly from the National Highway Authority of India (NHAI). Any factors which adversely affect HGIEL's ability to add new orders including but not limited to the downcycle in the road construction sector may adversely impact its business returns.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is expected to sustain the revenue growth on the back of a robust order book while maintaining healthy profitability and a comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Healthy scale of operations – HGIEL has track record of over 18 years in the road construction business, and is one of the largest road construction entities in India with projects across various states. HGIEL has witnessed a robust revenue growth at a CAGR of 26% in FY2018 and FY2022e on the back of a healthy order book along with improved order execution. The revenue growth is expected to be sustained over the medium term on the back of a robust estimated order book position of Rs. 7,802 crore as on March 31, 2022.

Strong order book position provides medium revenue visibility – HGIEL's order book position remains strong estimated at Rs. 7,802 crore as on March 31, 2022. The order book to OI ratio is healthy at ~2.2 times, providing medium-term revenue visibility. The order book remains geographically diversified with presence in Odisha, Telangana, Rajasthan, Delhi, Andhra Pradesh, Haryana and Uttar Pradesh.

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

Lower execution risks for existing HAM projects; expected release of corporate guarantees to reduce contingent liabilities: HGIEL has nine HAM projects of which three of the under-construction HAM projects have been completed without any cost overruns with two eligible to receive early completion bonus. Consequently, the corporate guarantees provided by HGIEL to these SPVs are expected to be released in line with the sanction terms, reducing the contingent liabilities. Further, the new HAM projects achieved financial closure without any corporate guarantee from HGIEL, supporting the rating upgrade.

Credit challenges

High TOL/TNW due to sizeable mobilisation advances and trade creditors – Given the presence of cross default clauses at HGIEL with its SPVs, ICRA had consolidated the debt of the under-construction HAM projects while excluding the completed projects as the credit profile of the under-construction projects is closely linked to that of the sponsor while the operational projects are self-sustainable. With these adjustments, the TOL/TNW remains high at 1.01 times (against standalone TOL/TNW of 0.92 times) as on March 31, 2022 owing to the high mobilisation advances and trade creditors and is estimated to increase to 1.46 times (against standalone TOL/TNW of 0.94 times) as on March 31, 2023 with the availment of debt for new projects.

Sizeable equity commitment for HAM projects – HGIEL has nine HAM projects (three received PCOD, one is under-construction, five newly awarded) and has a total equity commitment of ~Rs. 1,137 crore. Of this, HGIEL had infused ~Rs. 355 crore as on March 31, 2022 and the balance Rs. 782 crore of equity is expected to be infused over the next three years (FY2023

– Rs 460 crore, FY2024 – Rs 208 crore and FY2025-Rs. 113 crore). The estimated cash flow from operations along with the existing cash balances is expected to be sufficient for the equity commitments towards these HAM projects and the scheduled debt repayments. Moreover, the company is planning to monetise a few of its completed HAM projects over the next 12-24 months, which if materialises should aid in unlocking capital and improving liquidity. However, any significant increase in equity commitments due to the addition of new HAM projects would remain a key monitorable.

Vulnerability of profitability to price fluctuations; high sectorial and client concentration risk – The heightened competition in the road sector along with the steep increase in input costs (steel, cement etc.) could exert pressure on HGIEL's profitability despite the presence of a price escalation clauses in these contracts. The operating profit margins are expected to decline marginally in the near term from 16.2% in FY2021 but are expected to remain healthy at around 15%. The company also remains exposed to high segment and client concentration risks with entire order book consisting of road works mainly from the National Highway Authority of India (NHAI). Any factors which adversely affect HGIEL's ability to add new orders including but not limited to the downcycle in the road construction sector may adversely impact its business returns.

Liquidity position: Adequate

HGIEL's average utilisation of the fund-based limits during the last 13-month period ended March 2022 is moderate at 56%. HGIEL's liquidity is supported by undrawn working capital limits of ~Rs. 100 crore and free cash and liquid investments of ~Rs. 65 crore as on March 31 2022. The company has repayments of ~Rs. 45 crore and equity commitment of Rs. 460 crore in FY2023. An expected recovery of ~Rs 100 crore from sticky receivables will also aid cash flows in FY2023. The estimated cash flow from operations along with existing cash balances is expected to be sufficient for the equity commitments towards these HAM projects and the scheduled debt repayments.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a sustained improvement in its scale and business diversification while maintaining the profitability margins. An improvement in the liquidity position and unlocking of equity capital through asset monetisation of HAM projects can also trigger a rating upgrade.

Negative factors – Pressure on the ratings could arise if the financial risk profile weakens due to a slowdown in the execution of projects or if the profitability moderates or if there is any increase in the working capital cycle. The ratings may be downgraded if delays in the execution of the ongoing HAM projects or a significant increase in the commitment towards the HAM projects weakens the liquidity position. A specific credit metric which could result in rating downgrade is an interest cover of less than 7 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	To arrive at the ratings, ICRA has consolidated the five under-construction entities, while using the limited consolidation approach for the completed projects. The list of companies considered for limited/full consolidation are given in Annexure 2 below

About the group

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. HGIEL is accredited AA class by the

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). HGIEL, along with its nine HAM SPVs, is primarily involved in the construction of roads and highways in Odisha, Telangana, Rajasthan, Delhi, Andhra Pradesh, Haryana and Uttar Pradesh.

Key financial indicators (audited) – Standalone

	FY2020	FY2021	9MFY2022*
Operating Income (Rs. crore)	2,196.1	2,527.5	2,576.9
PAT (Rs. crore)	165.6	211.0	247.6
OPBDIT/OI (%)	15.6%	16.2%	16.1%
PAT/OI (%)	7.5%	8.3%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.1	-
Total Debt/OPBDIT (times)	1.1	0.7	0.6
Interest Coverage (times)	6.5	6.9	11.3

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

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					26-Apr-2022	13-Dec 2021	02-Jul 2021	25-Jan 2021	07-Jan 2021	20-Dec 2019
1	Cash Credit	Long-term	140.00	NA	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[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
3	Bank Guarantee	Long-term/Short-term	100.00	NA	[ICRA]AA- (Stable)/ [ICRA]A1+	[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	97.00	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Bank Guarantee	Very Simple
Non-convertible Debenture	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]AA- (Stable)
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	1300.00	[ICRA]A1+
NA	Bank Guarantee	NA	NA	NA	100.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Non-convertible Debenture	Dec 21, 2021	8%	Dec 21, 2024	97.00	[ICRA]AA- (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
H.G. Infra Engineering Limited	100.00% (rated entity)	Full Consolidation
Gurgaon Sohna Highway Private Limited	100.00%	Limited Consolidation
H.G. Ateli Narnaul Highway Private Limited	100.00%	Limited Consolidation
H.G. Rewari Bypass Private Limited	100.00%	Full Consolidation
H.G. Rewari Ateli Highway Private Limited	100.00%	Limited Consolidation
H.G. Khammam Devarapalle Pkg-1 Private Limited	100.00%	Full Consolidation
H.G. Khammam Devarapalle Pkg-2 Private Limited	100.00%	Full Consolidation
H.G. Raipur Visakhapatnam Ap-1 Private Limited	100.00%	Full Consolidation
H.G. Raipur Visakhapatnam Od-5 Private Limited	100.00%	Full Consolidation
H.G. Raipur Visakhapatnam Od-6 Private Limited	100.00%	Full Consolidation

Source: Company, ICRA Research

Corrigendum

Document dated April 26, 2022 has been corrected with revision as detailed below:

1. The phasing of equity commitment has been revised.
2. Complexity Indicator of Non-convertible Debenture (Page 4; Complexity level of the rated instrument) has been corrected to 'Simple' from 'Very Simple, in line with ICRA's policy document on complexity indicators, dated May 2021

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About ICRA Limited:

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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.

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