H.G. Infra Engineering Limited

June 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Cash Credit	92.00	95.00	Upgraded to [ICRA]A (Stable) from [ICRA]A-(Positive)
Fund based- Cash Credit (Proposed)	18.00	35.00	Upgraded to [ICRA]A (Stable) from [ICRA]A-(Positive)
Non-fund based-Bank Guarantee	440.50	683.50	Upgraded to [ICRA]A1 from [ICRA]A2+
Non-fund based-Proposed Bank Guarantee	310.00	396.50	Upgraded to [ICRA]A1 from [ICRA]A2+
Total	**860.50**	**1210.0**	

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus) on the Rs 130.00 crore (enhanced from Rs.110 crore) long term fund based facility of H.G. Infra Engineering Limited (HGIEL). The outlook on the long-term rating is revised to 'Stable' from 'Positive'. ICRA has also upgraded the short- term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) on the Rs. 1080 crore (enhanced from Rs.750.50 crore) non-fund based facility of HGIEL.

Rationale

The ratings upgrade takes into account the successful raising of equity capital via IPO during Q4FY2018, the healthy growth in operating income in FY2018 (32% YoY growth) and the rapid scaling up of the pending order book position to over Rs. 4500 crore as on March 31, 2018 (~3.22 times FY2018 OI) providing healthy revenue visibility over the next two years. The ratings also factor in an improvement in profitability from ~11% in FY2016 to ~15% in FY2018 in line with increased utilization of owned fleet for ongoing projects. The ratings continue to draw comfort from the promoters' long track record of over four decades in the civil construction business, coupled with the company's status of "AA" class contractor with the State Government of Rajasthan and "SS" registration with Military Engineers Services. The ratings are also supported by the diversified client portfolio consisting of private customers as well as government and semi-government agencies such as the National Highway Authority of India (NHAI), the Rajasthan State Road Development Corporation (RSRDC), Roads and Building (R&B) divisions, the municipal corporations of various cities, and irrigation departments, among others.

The ratings are constrained by the higher than projected debt levels resulting from significant scaling up of owned fleet over the last two fiscals, however, ICRA has factored in the expected de-leveraging post utilisation of the proceeds of the IPO in FY2019. Going forward, plans to expand its owned fleet could keep debt at alleviated levels. Further, the ratings factor in the execution risk associated with the recently awarded projects that account for >50% of the existing order book. ICRA also takes note of the high competitive intensity in the civil construction space as well as the project order based nature of the business, with the risk of reduction in workflow in case of any prolonged down-cycle in the road construction sector, which remains the major revenue contributor for the company. The ratings also takes into account the vulnerability of its profitability to fluctuations in input prices in some projects that do not have the price escalation clause; and the criticality of timely completion and delivery as per contract terms in order to avoid LD claims. ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 660 crore as of March 2018) due to submission of bid-bond, performance and other guarantees; high reliance on mobilisation advances and security deposits from sub-contractors to fund the working capital requirements and any slowdown in such receipts may increase HGIEPL's reliance on bank borrowings.

Outlook: Stable

ICRA believes that going forward, HGIEL's sales will show healthy growth over the next two years in line with a strong order book position and expansion of execution capabilities. The outlook may be revised to 'Positive' if the company continues growth momentum and is able to achieve the targeted improvement in coverage indicators by end of FY2019. The outlook may be revised to 'Negative' if there is a weakening of the financial risk profile due to slow down in pace of execution, large Liquidated Damages (LD) claims or significant increase in the overall receivables position of the company.

Key rating drivers

Credit strengths

Long track record of promoters coupled with status of "AA" class contractor - The promoters have an extensive experience in the civil construction segment spanning more than four decades. HGIEPL's long track record, adequate infrastructure (equipment, skilled manpower) coupled with "AA" class certification from the State Government of Rajasthan and "SS" class certification from Military Engineers Services ensure that it meets the financial and technical criteria of most of the tenders floated.

Strong order book position- Execution of progressively large orders over time has made HGIEL eligible to bid for higher value orders by meeting the stipulated technical and financial eligibility criteria. Accordingly, HGIEL has boosted its order book position over the past 12-15 months, with an unexecuted position of over ~Rs. 4500 crore as on March 31, 2018. The ratio of current pending order book to operating income of FY2018 was healthy at ~3.22 times, indicating healthy revenue visibility for the next 2-3 years

Healthy growth and profitability- Scaling up of order book and timely execution has helped in boosting revenue, with operating income registering a growth of 48% from Rs. 713 crore in FY2016 to Rs. 1056 crore in FY2017 and 32% to Rs. 1393 crore in FY2018. Overall profitability has improved from ~11% in FY2016 to ~15% in FY2018, supported by lower sub-contracting expenses in line with expansion of owned fleet.

Reputed and diversified customer profile- HGIEPL's customer base includes government bodies, semi-government bodies and private entities like NHAI, RSRDC, Military Engineers Services, Agra Development Authority, Gammon India Limited, IRB Infrastructure Developers Limited. It has also executed orders for Public Works Departments, R&B divisions, and State Road Project Divisions of various states like Rajasthan, Uttar Pradesh, Haryana and Maharashtra. There are no instances of any significant delays/defaults on its payments as all the above clientele have tied-up funding sources for the project. The counterparty credit risk remains relatively low for HGIEPL.

Credit weaknesses

Debt funded expansion of fleet; expected deleveraging over FY2019 via IPO money- In order to improve profitability and execution capabilities by reducing dependence on subcontractors, the company under took large debt funded capex in FY2017 amounting to ~Rs. 110 crore and ~Rs. 250 crore in FY2018. This has led to an increase in overall debt levels from Rs. 123 crore as on March 31, 2016 to ~Rs. 406 crore as on March 31, 2018, resulting in lower interest coverage metrics (at 5.19 times in FY2018 vis-a-vis 6.59 times in FY2017). Going forward though, the company plans to utilise a significant percentage of money raised via IPO in February 2018 towards de-leveraging over FY2019. Accordingly, overall capital structure and debt coverage metrics are expected to improve. On the other hand though, higher debt levels and equity raising has resulted in lower return metrics (RoCE moderating from 33% in FY2017 to 24% in FY2018), although despite moderation, coverage and return indicators continue to remain at comfortable levels.

Moderate execution risk – The execution risk for HGIEL remains at moderate levels, particularly for the newly awarded projects which account for >50% of the current order book, wherein securing all the necessary approvals and completion of work in timely manner will be key to achieve the growth and in the near to medium term. With the recently raised funding and capex towards enhancing execution capabilities, the company has adequate resources to execute the orders in a timely manner.

Intense competition and vulnerability to price fluctuation- The growth prospects remain constrained by intense competition in the civil-construction space and the project order-based nature of the business, with the risk of reduction in work flow in case of any prolonged down-cycle in the road construction sector, which remains the major revenue contributor for the company. Besides this, the overall profitability remains vulnerable to fluctuations in input prices, although the presence of price-escalation clause in most of the contracts for major components mitigates the above risks to a large extent.

High off-balance sheet exposure- ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 660 crore as on March 2018) due to submission of bid-bond, performance and other guarantees, high reliance on mobilisation advances and security deposits from sub-contractors to fund the working-capital requirements and any slowdown in such receipts may increase HGIEL's reliance on bank borrowings.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.
Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Construction Entities

About the company:

H.G. Infra Engineering Limited (HGIEL) 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. HGIEPL is primarily engaged in infrastructure development and construction of roads and highways mainly across Rajasthan, Uttar Pradesh, Haryana and Maharashtra. Over the past few years, the company has also diversified into the construction of water distribution projects. During FY2018, the company converted from a Private Limited company to a Public Limited company and has filed its Draft Red Herring Prospectus with SEBI in September 2017. The IPO was successfully concluded in February 2018.

In FY2018, the company reported a net profit of Rs. 84 crore on an operating income of Rs. 1393 crore, as compared to a net profit of Rs. 53 crore on an operating income of Rs. 1056 crore in the previous year.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1056	1393
PAT (Rs. crore)	53	84
OPBDIT/ OI (%)	11.78%	14.94%
RoCE (%)	33.09%	24.42%
Total Debt/ TNW (times)	1.16	0.75
Total Debt/ OPBDIT (times)	1.64	1.95
Interest coverage (times)	6.59	5.19
NWC/ OI (%)	10%	20%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 2018	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015
1	Cash Credit	Long Term	95.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Proposed Cash Credit	Long Term	35.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Letter of Credit & Bank Guarantee	Short Term	683.50	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Proposed Letter of Credit & Bank Guarantee	Short Term	396.50	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	-	95.00	[ICRA]A (Stable)
NA	Proposed Cash Credit	NA	NA	-	35.00	[ICRA]A (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	-	683.50	[ICRA]A1
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	-	396.50	[ICRA]A1

Source: H.G Infra Engineering Limited

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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

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