H.G. Infra Engineering Limited

March 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	95.00	120.00	[ICRA]A(Stable); reaffirmed
Fund-based - Proposed Cash Credit	35.00	10.00	[ICRA]A(Stable); reaffirmed
Non-fund Based - Bank Guarantee	683.50	1,000.00	[ICRA]A1; reaffirmed
Non-fund Based - Proposed Bank Guarantee	396.50	80.00	[ICRA]A1; reaffirmed
Total	**1,210.00**	**1,210.00**	

**Instrument details are provided in Annexure-1*

Rationale

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 as AA class contractor with the state government of Rajasthan and SS registration with the Military Engineer Services. The ratings of H.G. Infra Engineering Limited (HGIEL) 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), the roads and building (R&B) divisions, the municipal corporations of various cities, and irrigation departments, among others. Further, the ratings factor in the company's operating income (OI) growth at a CAGR of 40% over FY2016-FY2018. The growth is expected to continue in the medium term on the back of a healthy order book position of over Rs. 5,800 crore as on December 31, 2018 (~4.1 times FY2018 OI). ICRA also notes the company's healthy profitability with operating margins in the range of 14.5-15% with high utilisation of owned fleet and improved capital structure (post de-leveraging through its initial public offering (IPO) proceeds), resulting in comfortable coverage indicators.

HGIEL's ratings are constrained by increased working capital intensity, as reflected by NWC/OI of 20% and 23% in FY2018 and H1 FY2019, respectively against 10% in FY2017. This resulted in incremental working capital requirement to support the growth in scale of operations. The ratings also factor in the high reliance on mobilisation advances and deposits from sub-contractors to fund the working capital requirements; hence, any slowdown in such receipts increases HGIEL's reliance on bank borrowings. Further, the ratings consider the execution risk associated with the recently awarded projects that account for over 60% of the existing order book. ICRA notes the intense competition in the civil construction space as well as the project order-based nature of the business. Further, there is the risk of reduction in workflow in case of any prolonged down-cycle in the road construction sector, which remains the company's major revenue contributor. The ratings also take into account the vulnerability of HGIEL's profitability to fluctuations in input prices in some projects that do not have the price escalation clause. The ratings consider the criticality of timely completion and delivery of projects as per contract terms in order to avoid liquidated damage (LD) claims. ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 600 crore as of December 2018) due to the submissions of bid-bond, performance and other guarantees.

Outlook: Stable

ICRA expects HGIEL's sales to show healthy growth over the next two years considering the strong order book position and the expansion of execution capabilities. The outlook may be revised to Positive if the company continues its growth momentum, while improving its working capital intensity, resulting in an improved liquidity position. The outlook may be revised to Negative if the financial risk profile weakens due to slowdown in execution pace, moderation in profitability, sizeable LD claims, significant increase in equity commitment towards hybrid annuity projects (HAMs) projects or significant increase in its overall receivables position.

Key rating drivers

Credit strengths

Long track record of promoters; AA class contractor - The promoters have established experience spanning over four decades in the civil construction segment. Further, the presence of experienced professionals ensures adequate in-house project planning and execution capabilities. HGIEL's long track record and adequate infrastructure (equipment and skilled manpower), coupled with its AA class certification from the state government of Rajasthan and SS class certification from the Military Engineer Services, ensure that it meets the financial and technical criteria of most of the tenders floated.

Reputed and diversified customer profile - HGIEL's customer base includes Government and semi-Government bodies, and private entities (like NHAI, RSRDC, Military Engineer Services and 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). The counterparty credit risks remain moderate given the past track record of timely payments.

Strong order book position - HGIEL's execution of progressively sizeable orders over time has made it eligible to bid for higher value orders by meeting the stipulated technical and financial eligibility criteria. Accordingly, HGIEL boosted its order book position over the last 12-15 months, with an unexecuted position of over Rs. 5,800 crore as on December 31, 2018. The ratio of current pending order book to FY2018 OI was healthy at ~4.1 times, indicating healthy revenue visibility for the next two-three years.

Healthy growth and stable profitability - The order book scale-up and timely execution helped HGIEL boost its revenue, with the OI registering a 32% growth at Rs. 1,393 crore in FY2018; it further increased to Rs. 1,430 crore in 9M FY2019. The overall profitability improved from ~11% in FY2016 to ~15% in FY2018 and remained stable at ~15% in 9M FY2019, supported by lower sub-contracting expenses in line with the expansion of owned fleet. Consequently, the net margin improved to 6.0% in FY2018 from 5.0% in FY2017. The return indicators moderated in FY2018 on the back of funds raised through IPO, though remaining strong, with RoCE of 32% in FY2018.

Credit challenges

Increased working capital intensity; high off-balance sheet exposure - The company's working capital intensity remained in the range of 10-15% over FY2014-FY2017; however, it increased to 20% in FY2018 and further to 23% in H1 FY2019 primarily due to higher receivable days. Moreover, HGIEL has high reliance on mobilisation advances and security deposits from sub-contractors to fund the working capital requirements, any slowdown in which may increase its reliance on bank borrowings. ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 600 crore as of December 2018) due to the submissions of bid-bond, performance and other guarantees.

Moderate execution risk - HGIEL's execution risk remains at moderate levels, particularly for the newly awarded projects (which account for over 60% of the current order book), wherein securing all necessary approvals and work completion in a timely manner will be keys to achieve growth 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; vulnerability to price fluctuations - The company's growth prospects remain constrained by the intense competition in the civil construction space and the project order-based nature of the business. There is risk of reduction in work flow in case of any prolonged down-cycle in the road construction sector, which remains the company's major revenue contributor. Besides, the overall profitability remains vulnerable to fluctuations in the input prices, although the presence of price-escalation clause in most of the contracts for major components mitigates the risk to a large extent.

Liquidity position

HGIEL's average utilisation of the fund-based limits during the 15-month period ended December 2018 was high at ~82%, due to the increased working capital intensity. Despite positive cash flow from operations, significant capex towards expanding its fleet of construction equipment resulted in negative free cash flows. HGIEL financed a part of its capex through the funds raised in IPO. It is expected generate cash accruals of ~Rs. 180 crore in FY2019, which would increase further with revenue growth. Against this, the company has committed cash outflows of Rs. 75 crore in FY2020 and Rs. 30 crore in FY2021 for debt repayment; although, it had earmarked IPO funds of Rs. 45 crore towards debt retirement as of December 2018. ICRA also notes the equity requirement of ~Rs. 135-140 crore over FY2019-FY2021 in two HAMs. Hence, the liquidity position is expected to remain moderate in the near to medium term.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HGIEL. As on March 31, 2018, the company had four JVs and an associate company, which are all listed out in Annexure-2.

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 construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana and Maharashtra. Over the last few years, it also diversified into the construction of water distribution projects. In FY2018, the company successfully concluded its IPO of equity shares.

In 9M FY2019, the company reported a net profit of Rs. 89 crore on an OI of Rs. 1,430 crore, compared to a net profit of Rs. 84 crore on an OI of Rs. 1,393 crore in FY2018.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,056	1,393
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

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		
					Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	March 2019	June 2018	December 2017	December 2016	November 2015
1	Cash Credit	Long Term	120.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Proposed Cash Credit	Long Term	10.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Letter of Credit and Bank Guarantee	Short Term	1,000.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Proposed Letter of Credit and Bank Guarantee	Short Term	80.00	-	[ICRA]A1	[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	-	120.00	[ICRA]A(Stable)
NA	Proposed Cash Credit	NA	NA	-	10.00	[ICRA]A(Stable)
NA	Letter of Credit and Bank Guarantee	NA	NA	-	1,000.00	[ICRA]A1
NA	Proposed Letter of Credit and Bank Guarantee	NA	NA	-	80.00	[ICRA]A1

Source: H.G Infra Engineering Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
HGIEPL - Colossal JV	70.00%	Proportionate Consolidation
HGIEPL - Ranjit JV	30.00%	Proportionate Consolidation
HGIEPL - MGCPL JV	30.00%	Proportionate Consolidation
HGIEPL - RPS JV	51.00%	Proportionate Consolidation
TPL - HGIEPL JV	26.00%	Equity Method

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