June 15, 2021

Highway Engineering Consultants: [ICRA]BBB (Stable)/[ICRA]A3+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based facilities	5.00	[ICRA]BBB (Stable); Assigned
Short-term Non-fund-based facilities	65.00	[ICRA]A3+; Assigned
Total	**70.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has consolidated the operational and financial profile of Highway Engineering Consultants (HEC) and L.N. Malviya Infra Projects Pvt. Limited (LNMIPPL), hereinafter referred to as the LNM Group/Group, given that the two entities have a common key management, similar business profile, operational linkages, and promoters being close relatives.

The assigned ratings derive comfort from the Group's significant revenue scale up, at a CAGR of ~25% in the past four fiscals through FY2021, aided by its favourable technical and financial profile that supports its competitive position. The Group's profitability has also been robust in the past, ranging between 20% and 22% at the operating level, aided by prudent project selection and its access to relatively low-cost manpower. The ratings consider the favourable financial profile, characterised by its conservative capital structure and healthy coverage indicators. The ratings factor in the experience of the Group in the engineering consultancy services segment (preparation of detailed project report (DPR), supervision, etc.,) and its reputed clientele (NHAI, MoRTH, MPRDC among others)[1]. The ratings consider the pending order book of Rs. 411.3 crore as on February 15, 2021 (translating to an Order Book/Operating Income ratio of 1.7 times of FY2021's Operating Income), which supports near-term revenue visibility. However, ICRA notes that multiple projects in the current order book are running behind schedule or are yet to start execution/billing; slower execution or lower fresh order inflow can have an impact on the revenue growth in the upcoming fiscals.

The assigned ratings, however, are constrained by the Group's high sectoral concentration, with nearly 89% of its revenues being derived from the roads/highways segment, and the intense competition in the consultancy services segment. The ratings also consider the Group's exposure to sizeable contingent liabilities in the form of bank guarantees, largely for contractual performance. Nevertheless, ICRA draws comfort from the Group's track record of no crystallisation of these guarantees in the past. The ratings consider the limited buffer availability in LNMIPPL's non-fund based facilities (bank guarantees) as of March 2021, which could constraint the company's ability to bid for fresh orders. Nonetheless, the expected release in BGs of nearly Rs. 8.0 crore in H1FY2022 and the proposed enhancement of the BG facilities by Rs. 20.0 crore provide comfort to some extent.

ICRA has also noted that, there have been few incidents in the past when some of the key clients had given show-cause notices to LNMIPPL with the recent one in August 2020, wherein NHAI had issued a show-cause notice to LNMIPPL pertaining to the collapse of an elevated corridor in one of the projects where LNMIPPL was independent engineer. LNMIPPL has responded to

[1] NHAI – National Highways Authority of India, MoRTH - Ministry of Road Transport & Highways, MPRDC - Madhya Pradesh Road Development Corporation

the show-cause notice issued by the NHAI, paid the monetary penalty levied and expects no further adverse developments in this regard.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to benefit from its experience in the infrastructure consultancy services segment, its reputed clientele including the NHAI, and MPRDC, and its current order book position.

Key rating drivers and their description

Credit strengths

Healthy revenue growth and robust profitability – The Group's operating income grew at a CAGR of 25% in the past four fiscals through FY2021 and stood at Rs. 245.1 crore (as per provisional numbers). The growth was aided by its favourable technical and financial profile, which supports its ability to secure regular business from its key customers. Its operating margins have been in the range of 20% - 22% in the past four fiscals, aided by prudent project selection coupled with the Group's access to relatively low-cost manpower, which provides cost side benefits, thereby boosting its profitability.

Favourable financial profile – LNM Group's financial profile remains favourable, characterised by its stable profitability, comfortable capital structure and healthy coverage indicators. Its gearing (total debt/tangible net worth) remains low (at less than 0.1 times in the past four fiscals, as of March-end) aided by its limited reliance on external borrowings. Its TOL/TNW also stood comfortable, in the range of 0.6 times to 1.2 times, in the past three fiscals through FY2020. The debt servicing indicators have been healthy as evidenced by an interest coverage of over 10.0 times, and Total debt/OPBDITA of less than 0.08 times in the past three fiscals through FY2020, aided by its robust profits and low debt obligations.

Long experience in engineering consultancy services and reputed clientele – The Group's promoters Mr. Laxmi Narayan Malviya and Mr. Satya Narayan Malviya have extensive experience of over two decades in the engineering consultancy services. The Group's long experience and track record in the segment supports its ability to competitively bid for future projects. In the past, LNM Group had executed projects for government institutions such as the NHAI and MPRDC, among others. The strong client profile results in low counterparty credit risk.

Pending order book position provides near-term revenue visibility – LNM Group's pending order book position stood at Rs. 411.3 crore as on February 15, 2021, translating to an Order Book/OI ratio of 1.7 times (of FY2021's revenues) and the same is expected to provide moderate near-term revenue visibility. The mobilisation of the slow-moving orders and the fresh order receipts will remain critical for the Group's revenue growth in the upcoming fiscal.

Credit challenges

Revenue concentration risk – LNM Group faces high sectoral concentration risk (nearly 89% of its revenues was derived from the highways segment in FY2020 and FY2021) and its fresh order receipt is vulnerable to the overall investments in the highway infrastructure. Although the Group has presence in other segments such as water resources and pipelines, the revenue contribution of such segments has been minimal in the past. The company's ability to further diversify its revenues and maintain its growth momentum will remain a key credit monitorable.

Intense competition and reputation sensitivity – LNM Group procures orders through competitive bidding. With multiple players in the independent engineering consultancy services segment, the company faces stiff competition, which could constrain its ability to procure new orders. Further, there have been few incidents in the past when the key clients had given show-cause notice to LNMIPPL. While these issues have had limited or no impact on its operations thus far, reputation sensitivity in the business remains high. Any adverse development could impact its ability to secure new projects in future and consequently impact its credit risk profile.

Sizeable non-fund based exposure - LNM Group is exposed to sizeable contingent liabilities in the form of bank guarantees (Rs. 82.0 crore as on April 17, 2021), largely towards performance guarantee and security deposits. Nonetheless, ICRA draws comfort from the track record of no crystallisation of guarantees. ICRA also notes the limited availability of buffer in LNMIPPL's non-fund based facilities, which might restrict its ability to bid for fresh orders. The expected release of sizeable BGs in Q1 and Q1 FY2022 and the anticipated enhancement in the BG limits by Rs. 20.0 crore provide comfort to some extent.

Liquidity position: Adequate

LNM Group's liquidity position is adequate, characterised by moderate buffer availability in its working capital facilities and considerable unencumbered-cash balances maintained. The company sparingly utilizes its fund-based working capital facility (overdraft). The utilization of its non-fund based (bank guarantee) facility is moderately high with an average utilization of 83.3% for LNM and 75.6% for HEC for the period April 2020 to March 2021. Nonetheless, the expected release of BGs of nearly Rs. 17.0 crore in H1FY2022 and the anticipated enhancement in the sanctioned limits by Rs. 40.0 crore in the near term, provide comfort. The Group's ability to secure the enhancement on a timely basis will be a key credit monitorable. The Group has limited repayment obligation of ~Rs. 1.4 crore/year for the period FY2022-FY2024 on its outstanding term loans.

Rating sensitivities

Positive factors: The ratings could be upgraded if the Group achieves significant scale up in its revenues, while maintaining its profitability and improving its liquidity profile on a sustained basis.

Negative factors: Negative pressure on the rating could arise in case any material decline in the Group's revenues and profitability adversely impacts its key credit metrics. The rating could also face downward pressure if any deterioration in its working capital cycle stretches the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HEC and LNMIPPL (refer Annexure-2).

About the company

LNMIPPL was established in 2000, in Bhopal, as a proprietorship firm by Mr. Laxmi Narayan Malviya and was later incorporated as a private limited company in 2010. HEC was established in 2007 by Mr. Satya Narayan Malviya (elder brother of Mr. L N Malviya) and Ms. Tapsya Malviya as partners. Both the companies are into similar line of business of providing engineering consultancy services focused towards the infrastructure sector including segments such as highways, roads and water supply, among others. The company's key service offerings include supervision and quality control and detailed project reports. The company's projects are distributed across the country, with its key focus on Madhya Pradesh.

Key financial indicators (Audited)

LNMIPPL & HEC – Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	167.96	198.74
PAT (Rs. crore)	30.22	32.67
OPBDIT/OI (%)	24.81%	22.63%
PAT/OI (%)	17.99%	16.44%
Total Outside Liabilities/Tangible Net Worth (times)	0.64	0.59
Total Debt/OPBDIT (times)	0.01	0.08
Interest Coverage (times)	11.14	10.11

(Source: LNMIPPL, HEC; ICRA research)

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 on March 31, 2021 (Rs. crore)	Date & Rating in	FY2021	FY2020	FY2019
					June 15, 2021	--	--	--
1	Fund-based facilities (CC)	Long-term	5.00	-	[ICRA]BBB (Stable)	--	--	--
2	Non-fund based facilities (BG)	Short-term	65.00	-	[ICRA]A3+	--	--	--

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facilities – CC	Simple
Non-fund Based facilities - BG	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	Fund-based facilities	NA	NA	NA	5.00	[ICRA]BBB (Stable)
NA	Non-fund based facilities	NA	NA	NA	65.00	[ICRA]A3+

Source: *LNMIPPL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	HEC's Ownership	Consolidation Approach
L.N. Malviya Infra Projects Pvt. Limited	-	Full Consolidation
Highway Engineering Consultants	-	Full Consolidation

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About ICRA Limited:

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