July 02, 2021

Harsh Constructions Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/CC	45.00	57.50	[ICRA] BBB+ (Negative); reaffirmed
Long Term / Short Term - Non-Fund Based	120.00	156.50	[ICRA] BBB+ (Negative)/[ICRA] A2; reaffirmed
Long Term / Short Term - Unallocated	0.00	21.00	[ICRA] BBB+ (Negative)/[ICRA] A2; reaffirmed
Total	**165.00**	**235.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating for Harsh Constructions Pvt Ltd (HCPL) continues to take into account its healthy order book position of over Rs. 1,375 crore as on March 31, 2021, which is 3.24 times of the consolidated operating income (OI) of FY2021 (as per provisional financials) providing healthy revenue visibility. On account of the Covid-19 pandemic-related disruptions, its consolidated basis OI dipped to ~Rs. 424 crore in FY2021 from Rs. 604 crore in FY2020. However, despite the reduced OI and increased debt levels during the year, the financial risk profile remained comfortable with interest coverage of 5.6 times in FY2021 (PY: 5.2 times) and TD/OPBITDA of 2.2 times as on March 31, 2021 (PY: 1.0 times). The ratings continue to factor in the established track record of the promoters spanning over nearly three decades in building construction for various government agencies.

ICRA has retained the outlook at Negative given the slow pace of bill realisation owing to the post pandemic budgetary constraints of various authorities and adverse medical situation contributing to administrative delays in fund disbursements. Consequently, the working capital intensity remained elevated at ~57% in FY2021. Further, the second wave of Covid-19 in Q1 FY2022 could have an adverse impact on the overall pace of execution and realisation of payments from HCPL's clients.

The ratings remain constrained by its geographical concentration risks, exposure to execution risk for hybrid annuity model (HAM) projects and the company's high consolidated leverage. With over 66% of the projects located in Maharashtra, the order book is exposed to geographical concentration risk. Further, the top five projects account for 61% of the outstanding orderbook. With the highest number of Covid-19 cases in India being reported from Maharashtra, it remains exposed to operational challenges arising from the pandemic. Further, of the outstanding order book, nearly one-fifth is under HCPL's joint venture (HPM Infra LLP), which is executing road projects including the three BOT (HAM) projects awarded by the Maharashtra Public Works Department (PWD). While the financial closure and the equity infusion for all the three HAM projects were completed as on March 31, 2021, the projects were delayed on account of the Covid-19 pandemic-related disruptions which could result in cost overruns. So far, the projects have received EOT till ~H1FY2022 and the company expects further extensions and targets to complete the same by March 2022. The TOL/TNW as on March 31, 2021 (as per provisional financials), remained at 1.6 times similar to FY2020 levels. The consolidated debt levels are likely to peak by March 2022 once the BOT(HAM) projects draw down debt fully. HCPL remains exposed to moderate execution risk with nearly 36% of the outstanding orders being in the nascent stages of execution (less than 15% completion). However, ICRA notes that execution across some of the projects was impacted either by design approval-related delays or by Covid-19 pandemic-led challenges in the region of HCPL's operations in FY2021. ICRA also notes that the company has received extension of timelines for the same. However, on an ongoing basis, if there are further delays and EOT is not granted, then it exposes the company to BG invocation risk.

Key rating drivers and their description

Credit strengths

Healthy order book position – The company's healthy order book provides medium-term revenue visibility. As on March 31, 2021, HCPL's outstanding order book position stood at Rs. 1,375.0 crore (OB/OI of 3.24 times based on FY2021 provisional). These projects are expected to be executed over the next 24 to 36 months, providing medium-term revenue visibility at the consolidated level.

Comfortable coverage indicators – During FY2015-FY2020, HCPL's OI witnessed a CAGR of ~25% on a consolidated basis to ~Rs. 604 crore in FY2020. However, on account of the Covid-19 pandemic-related disruptions, the company's consolidated OI dipped to ~Rs. 424.5 crore in FY2021 (as per the provisional financials). Further, despite the increased debt levels, the debt coverage indicators remained adequate as on March 31, 2021 (as per the provisional financials) with interest coverage of 5.6 times (PY: 5.2 times) at the consolidated level and TD/OPBITDA of 2.2 times (PY: 1.0 times).

Established track record of the promoters in executing civil construction contracts for government and semi-government agencies- The promoter Mr. Vilas Birari has a rich experience of over three decades in the civil construction business and the company is registered as Class-1A contractor with PWD Maharashtra. For the road projects, HCPL has entered into joint venture with partners with good execution track record as well as terrain knowledge.

Credit challenges

Geographical concentration risks and limited project diversification – At the consolidated level, around 66% of the outstanding order-book is concentrated in Maharashtra and the top five projects account for nearly 61% of the outstanding order-book. With the highest number of Covid-19 cases in India being reported from Maharashtra, the company remains exposed to operational challenges arising from the pandemic.

High consolidated leverage – The company's TOL/TNW as on March 31, 2021 (as per provisional financials) remained at 1.6 times similar to FY2020 levels. The consolidated debt levels are expected to peak by March 2022 once the BOT(HAM) projects draw down debt fully.

Execution risks – With 36% of projects in the nascent stages of execution (less than 15% complete as on March 31, 2021), the company remains exposed to risk associated with delays in these projects. Out of the current outstanding order book as on March 31, 2021, 17 projects have got delayed and the company has received extension of timeline for the same. However, on an ongoing basis, if there are further delays and EOT is not granted, then it exposes HCPL to BG invocation risk. Further, **w**hile the financial closure and the equity infusion for all the three HAM projects were completed as on March 31, 2021, the projects were delayed due to the pandemic-related disruptions, which could result in cost overruns. So far, the projects have received EOT till H1FY2022 and the company expects further extensions and targets to complete the projects by March 2022.

Liquidity position: Stretched

HCPL's liquidity is stretched. The average fund-based limit utilisation remained high at ~95% for the last 12 months ending in May 2021. The slow pace of bill realisation owing to the post pandemic budgetary constraints of various authorities and adverse medical situation also contributed to administrative delays in fund disbursements resulting in increase in working capital intensity. With no major capex requirements, the debt repayment of ~Rs. 5.18 crore for FY2021 can be met through its cash flows from operations.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if there is an improvement in execution and collections leading to reduction in net working capital intensity and/or the company demonstrates a significant improvement in its liquidity position with healthy cushion in FB limits.

Negative factors – Negative pressure on the ratings could arise if there is any slowdown in execution or further deterioration in the company's working capital cycle. Also, any significant cost over run for the HAM projects which may result in higher than anticipated equity support from HCPL may impact the ratings negatively.

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 financials of HCPL, HPM Infra and the three HAM SPVs viz. HMP Buildcon Private Limited, HMP Builders Private Limited and HMP Contractors Private Limited given that HCPL has extended corporate guarantee to these entities.

About the company

Founded in 1990 by Mr. Vilas K. Birari as a proprietorship firm, HCPL was incorporated in 2009. It is a construction company based at Nashik, in Maharashtra, and undertakes construction of buildings such as housing projects, commercial complexes, airport buildings healthcare facilities, and educational institutions for government agencies as well as private parties. It is registered as a Class-1A contractor with PWD Maharashtra.

Key financial indicators (audited)

HCPL Standalone*	FY2019	FY2020
Operating Income (Rs. crore)	314.7	388.9
PAT (Rs. crore)	20.2	20.4
OPBDIT/OI (%)	11.8%	8.2%
PAT/OI (%)	6.4%	5.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.9
Total Debt/OPBDIT (times)	1.3	1.4
Interest Coverage (times)	6.2	3.7

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

**The following are the audited financials shared by the company. However, ICRA has considered consolidated financials for the rating exercise*

Status of non-cooperation with previous CRA:

CRISIL Limited, vide its press release dated July 20, 2020, has mentioned that it has been consistently following up with HCPL for obtaining information through letters and emails. However, HCPL remained non cooperative. Therefore, on account of inadequate information and lack of management cooperation, the rating on the bank facilities of HCPL was migrated to CRISIL BB+/Stable/CRISIL A4+ Issuer not cooperating from CRISIL BBB/Positive/CRISIL A3+.

Any other information: None

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 of July 01, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 01, 2021	May 29, 2020	Feb 14, 2020	Feb 13, 2019
1	Fund-based Limits	Long-term	57.50		[ICRA] BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)
2	Non-fund Based. Limit	Long-term and short term	156.50		[ICRA] BBB+ (Negative)/[ICRA] A2	[ICRA]BBB+ (Negative)/[ICRA]A2)	[ICRA] BBB+ (Stable)/[ICRA] A2	[ICRA] BBB+ (Stable)/[ICRA] A2
3	Unallocated Limits	Long-term and short term	21.00		[ICRA] BBB+ (Negative)/[ICRA] A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits	Simple
Non-fund Based Limit	Very Simple
Unallocated Limits	NA

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 Limits		NA		57.50	[ICRA] BBB+ (Negative)
NA	Non-fund Based. Limits		NA		156.50	[ICRA] BBB+ (Negative)/[ICRA] A2
NA	Unallocated		NA		21.00	[ICRA] BBB+ (Negative)/[ICRA] A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	HCPL Ownership	Consolidation Approach
Harsh Construction Private Limited	100.00% (rated entity)	Full Consolidation
HPM Infra LLP	33.33%	Full Consolidation
HMP Buildcon Private Limited	33.33%	Full Consolidation
HMP Builders Private Limited	33.33%	Full Consolidation
HMP Contractors Private Limited	33.33%	Full Consolidation

Source: *HCPL annual report FY2020*

Note: *ICRA has consolidated the financials of the parent (HCPL) and its associate companies while assigning the ratings.*

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About ICRA Limited:

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