

December 13, 2021

H.G. Infra Engineering Limited: Ratings reaffirmed for the bank lines; rating assigned for Non-convertible debenture programme

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]A+(Positive), reaffirmed |
| Non-fund Based – Bank Guarantee | 1312.00 | 1300.00 | [ICRA]A1, reaffirmed |
| Long-term/Short-term Non-fund Based – Bank Guarantee | 88.00 | 100.00 | [ICRA]A+ (Positive)/[ICRA]A1, reaffirmed |
| Non-convertible Debenture (NCD) Programme [^] | - | 97.00 | [ICRA]A+ (Positive), assigned |
| Total | 1540.00 | 1637.00 | |

*Instrument details are provided in Annexure-1 [^]NCD's yet to be placed

Rationale

The assignment/reaffirmation of ratings with a 'Positive' outlook takes into account the healthy growth in revenue at a CAGR of 22% during FY2018 and FY2021 on the back of improved order book along with timely execution; the revenues improved by 31% on annualised basis to Rs. 1661 crore in H1FY2022 from Rs. 2528 crore in FY2021 and the growth is expected to be sustained over the medium term on the back of strong order book position of Rs. 6855 crore as on September 30, 2021. The operating profit margins also improved to 16.2% in FY2021 and 16.3% in H1FY2022 from 15.6% in FY2020 supported by scale benefits and reduced dependence on sub-contracting expenses. The ratings also factor in improvement in working capital intensity to 7% in FY2021 from 16% in FY2020 with recovery of payments from Public Works Department in Rajasthan; the working capital intensity is expected to remain at low levels going forward with majority of order book comprising own Hybrid Annuity Model (HAM) and EPC works from reputed customers. The ratings also consider reduction in project risk with three of the four under construction HAM projects expected to be completed in FY2022. Timely completion of these HAM projects within budgeted costs and release of corporate guarantees extended to the debt availed by its HAM SPVs remains a key rating monitorable in the near term. The ratings continue to draw comfort from the promoters' long track record of over four decades in the civil construction business; and diversified client portfolio consisting of Government bodies like National Highways Authority of India (NHAI), Ministry of Road Transport and Highways (MoRTH), and private road developers like IRB Infrastructure Developers Limited, Tata Projects Limited, Adani Road Transport Limited etc.

The ratings, however, remain constrained by the high consolidated TOL/TNW of 1.42 times as of March 31, 2021 owing to high mobilisation advances and trade creditors. Further, the ratings factor in sizeable equity commitment and pending execution related risks for the HAM portfolio. HGEIL has a total of 10 HAM projects (4 ongoing and 6 newly awarded), and has a total equity commitment of ~Rs. 1,143 crore. Of this, HGEIL has infused Rs. 261 crore as of March 31, 2021 and the balance Rs. 882 crore equity is expected to be infused over the next four years. The estimated cash flow from operations along with the NCD proceeds is expected to be sufficient for the scheduled debt repayments and equity commitments towards the HAM projects. The heightened competition in the road sector along with steep increase in input costs (steel, cement etc.) could exert pressure on HGEIL's profitability. However, the presence of a price escalation clauses in these contracts mitigates the risk to an extent.

The positive outlook on the long-term rating reflects ICRA's opinion that the credit profile of company is expected to strengthen in the backdrop of sustained revenue growth and profitability, while maintaining comfortable liquidity position on the back of timely receipt of payments from its customers.

Key rating drivers and their description

Credit strengths

Healthy revenue growth over the past three years – The revenues witnessed a healthy growth at a CAGR of 22% during FY2018 and FY2021 on the back of improved order book along with timely execution; the revenues improved by 31% on annualised basis to Rs. 1661 crore in H1FY2022 from Rs. 2528 crore in FY2021 and the growth is expected to be sustained over the medium term on the back of strong order book position of Rs. 6855 crore as on September 30, 2021. The operating profit margins also improved to 16.2% in FY2021 and 16.3% in H1FY2022 from 15.6% in FY2020 supported by reduced dependence on sub-contracting expenses and scale benefits.

Strong order book position – HGIEL's order book position remains strong at Rs. 6843 crore as of September 30, 2021 (comprising of Rs. 2768 crore of HAM projects and Rs. 4075 crore of EPC projects). In October 2021, the company has received two new HAM orders cumulatively worth Rs. 2615 crore. The order book to OI ratio is healthy at ~2.7 times providing medium term revenue visibility. The order book remains geographically diversified with current orders in states of Rajasthan, Haryana, Uttar Pradesh, Telangana etc.

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

Credit challenges

High TOL/TNW due to sizeable mobilisation advances and trade creditors – The consolidated TOL/TNW is high at 1.42 times as of March 31, 2021 owing to sizeable mobilisation advances of Rs. 324 crore and trade payables. Further, TOL/TNW is expected to increase in the medium term with addition of debt for ongoing HAM projects. ICRA notes that release of corporate guarantees extended to the debt availed by its HAM SPVs remains a key rating monitorable in the near term.

Sizeable equity commitment and execution risks related to HAM projects – HGIEL has a total of 10 HAM projects (4 ongoing and 6 recently awarded), and has a total equity commitment of ~Rs. 1143 crore. HGIEL has already infused Rs. 261 crore as of March 31, 2021 and the balance Rs. 882 crore equity is to be infused over the next 4 years (FY2022 – Rs 309 crore, FY2023 – Rs. 308 crore, FY2024 – Rs. 160 crore and FY2025- Rs. 105 crore). Three of the four under construction HAM projects are expected to be completed in FY2022. Timely completion of these HAM projects within budgeted costs remains a key rating sensitivity.

Intense competition; vulnerability to price fluctuations – The heightened competition in the road sector along with steep increase in input costs (steel, cement etc.) could exert pressure on HGIEL's profitability. However, the presence of a price escalation clauses in these contracts mitigates the risk to an extent. There is a risk of reduction in the work flow in case of any prolonged downcycle in the road construction sector, as almost entire order book (>95%) consists of road works.

Liquidity position: Adequate

HGIEL's average utilisation of the fund-based limits during the last 12-month period ending in October 2021 is moderate at 59% due to reduced working capital intensity. The company has repayments of ~Rs. 67 crore and equity commitment of Rs. 309 crore in FY2022. The estimated cash flow from operations coupled with NCD proceeds is expected to be sufficient for repayments and equity commitments in FY2022.

Rating sensitivities

Positive factors – Timely completion of HAM projects and reduction of contingent liabilities or corporate guarantees towards the HAM projects would support a rating upgrade. Further, if the company sustains improvement in scale whilst maintaining the profitability margins along with improvement in liquidity position would also support the rating upgrade.

Negative factors – Pressure on the ratings could materialise if the financial risk profile weakens due to a slowdown in the execution, moderation in profitability or any increase in the working capital cycle. The ratings may be downgraded if delay in the execution of the ongoing HAM projects or significant increase in commitment towards HAM projects leads to a weakened liquidity position and TOL/TNW of above 1.5 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 | For arriving at the ratings, ICRA has consolidated the three entities where HGIEL has extended corporate guarantees for the entire tenure of the debt. For other entities, ICRA has used the limited consolidation approach, under which the proposed equity investments for under construction projects have been considered. The list of companies considered for limited/full consolidation are given in Annexure 2 below |

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 the construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana, Maharashtra, Andhra Pradesh and Telangana. In FY2018, the company successfully concluded its IPO. HGIEL is accredited AA class by 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).

Key financial indicators (audited) – Standalone

| | FY2019 | FY2020 | FY2021 | H1FY2022* |
|--|--------|--------|--------|-----------|
| Operating Income (Rs. crore) | 2,010 | 2,196 | 2,528 | 1661 |
| PAT (Rs. crore) | 124 | 166 | 211 | 159 |
| OPBDIT/OI (%) | 15.1% | 15.6% | 16.2% | 16.3% |
| PAT/OI (%) | 6.1% | 7.5% | 8.3% | 9.6% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.4 | 1.5 | 1.1 | 0.8 |
| Total Debt/OPBDIT (times) | 1.3 | 1.1 | 0.7 | 0.5 |
| Interest Coverage (times) | 6.2 | 6.5 | 6.9 | 11.1 |

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating | | | | Chronology of Rating History for the past 3 years | | | | | |
|---|-------------------------------------|----------------------|--------------------------|---|------------------------------|---|---------------------------|---------------------------|---------------------------|-------------------------|------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Sep 30, 2021 (Rs. crore) | Current Rating | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2020 | Date & Rating in FY2019 | |
| | | | | | | | Jan 25, 2021 | Jan 07, 2021 | | Mar 01, 2019 | Jun 22, 2018 |
| 1 | Cash Credit | Long-term | 140.00 | NA | [ICRA]A+ (Positive) | [ICRA]A+ (Positive) | [ICRA]A (Stable) | [ICRA]A (Stable) | [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 | [ICRA]A1 |
| 3 | Bank Guarantee | Long-term/Short-term | 100.00 | NA | [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 [^] | NA | [ICRA]A+ (Positive) | - | - | - | - | - | - |

[^]NCD's yet to be placed

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---------------------------|----------------------|
| Cash Credit | Simple |
| Letter of Credit | Very Simple |
| Bank Guarantee | Very Simple |
| Non-convertible Debenture | 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/Banker's Name | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---------------------------|---------------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| HDFC Bank Limited | Cash Credit | NA | NA | NA | 25.00 | [ICRA]A+ (Positive) |
| ICICI Bank Ltd. | Cash Credit | NA | NA | NA | 1.00 | [ICRA]A+ (Positive) |
| Punjab National Bank(OBC) | Cash Credit | NA | NA | NA | 25.00 | [ICRA]A+ (Positive) |
| Yes Bank | Cash Credit | NA | NA | NA | 10.00 | [ICRA]A+ (Positive) |
| Union Bank of India | Cash Credit | NA | NA | NA | 14.00 | [ICRA]A+ (Positive) |
| State Bank of India | Cash Credit | NA | NA | NA | 20.00 | [ICRA]A+ (Positive) |
| Bank of Baroda | Cash Credit | NA | NA | NA | 2.00 | [ICRA]A+ (Positive) |
| IDFC Bank Ltd. | Cash Credit | NA | NA | NA | 10.00 | [ICRA]A+ (Positive) |
| IndusInd Bank Ltd. | Cash Credit | NA | NA | NA | 5.00 | [ICRA]A+ (Positive) |
| Axis Bank Ltd. | Cash Credit | NA | NA | NA | 10.00 | [ICRA]A+ (Positive) |
| Indian Bank | Cash Credit | NA | NA | NA | 10.00 | [ICRA]A+ (Positive) |
| Karnataka Bank | Cash Credit | NA | NA | NA | 5.00 | [ICRA]A+ (Positive) |
| Bank of India | Cash Credit | NA | NA | NA | 3.00 | [ICRA]A+ (Positive) |
| HDFC Bank Limited | Letter of Credit/Bank Guarantee | NA | NA | NA | 129.00 | [ICRA]A1 |
| ICICI Bank Ltd. | Letter of Credit/Bank Guarantee | NA | NA | NA | 94.00 | [ICRA]A1 |
| Punjab National Bank(OBC) | Letter of Credit/Bank Guarantee | NA | NA | NA | 105.00 | [ICRA]A1 |
| Yes Bank | Letter of Credit/Bank Guarantee | NA | NA | NA | 140.00 | [ICRA]A1 |
| Union Bank of India | Letter of Credit/Bank Guarantee | NA | NA | NA | 140.00 | [ICRA]A1 |
| State Bank of India | Letter of Credit/Bank Guarantee | NA | NA | NA | 65.00 | [ICRA]A1 |
| Bank of Baroda | Letter of Credit/Bank Guarantee | NA | NA | NA | 48.00 | [ICRA]A1 |
| IndusInd Bank Ltd. | Letter of Credit/Bank Guarantee | NA | NA | NA | 115.00 | [ICRA]A1 |
| RBL Bank Ltd. | Letter of Credit/Bank Guarantee | NA | NA | NA | 62.50 | [ICRA]A1 |
| Axis Bank Ltd. | Letter of Credit/Bank Guarantee | NA | NA | NA | 80.00 | [ICRA]A1 |
| Federal Bank Ltd. | Letter of Credit/Bank Guarantee | NA | NA | NA | 55.00 | [ICRA]A1 |
| Indian Bank | Letter of Credit/Bank Guarantee | NA | NA | NA | 40.00 | [ICRA]A1 |
| Karnataka Bank | Letter of Credit/Bank Guarantee | NA | NA | NA | 70.00 | [ICRA]A1 |
| Bank of India | Letter of Credit/Bank Guarantee | NA | NA | NA | 90.00 | [ICRA]A1 |
| Proposed | Letter of Credit/Bank Guarantee | NA | NA | NA | 66.50 | [ICRA]A1 |

| | | | | | | |
|------------------|---------------------------|----|----|----|--------|-------------------------------------|
| IDFC Bank Ltd. | Bank Guarantee | NA | NA | NA | 100.00 | [ICRA]A+ (Positive)/ [ICRA]A1 |
| Yet to be placed | Non-convertible Debenture | NA | NA | NA | 97.00 | [ICRA]A+ (Positive) |

Source: Company, Yes Bank, RBL Bank have Rs.10 crore. interchangeable and Federal Bank has Rs. 15 crore interchangeable. limit from letter of credit/bank guarantee to cash credit.

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|--|-----------|------------------------|
| Gurgaon Sohna Highway Private Limited | 100.00% | Full Consolidation |
| H.G. Ateli Narnaul Highway Private Limited | 100.00% | Full Consolidation |
| H.G. Rewari Bypass Private Limited | 100.00% | Full Consolidation |
| H.G. Rewari Ateli Highway Private Limited | 100.00% | Limited Consolidation |

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Branches



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