August 04, 2022

Harsh Constructions Pvt. Ltd.: Rating downgraded to [ICRA]BBB (Negative)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	57.50	65.00	[ICRA]BBB (Negative); downgraded from [ICRA]BBB+ (Negative)
Non-fund Based Facilities	156.50	159.00	[ICRA]BBB (Negative)/[ICRA]A3+; downgraded from [ICRA]BBB+ (Negative)/[ICRA]A2
Unallocated Limits	21.00	11.00	[ICRA]BBB (Negative)/[ICRA]A3+; downgraded from [ICRA]BBB+ (Negative)/[ICRA]A2
Total	**235.00**	**235.00**	

**Instrument details are provided in Annexure I*

Rationale

The downgrade in the ratings of Harsh Constructions Pvt. Ltd. (HCPL) factors in the elongation in the receivable cycle, which has resulted in deterioration in its working capital cycle (NWC/OI was 49% in FY2022) and stretched liquidity position. ICRA notes that a few of its projects are running behind schedule, and the company is expecting extension of timeline (EoT) for the same from the authorities. Given the slowdown in project execution, HCPL’s consolidated revenues have declined to Rs. 360 crore in FY2022 from Rs. 563 crore in FY2020.

The ratings favourably factors in the healthy order book position of over Rs. 1,001 crore as on March 31, 2022, which is 3.3 times of the FY2022 revenues, thus, providing healthy medium-term revenue visibility. The ratings also note the established track record of the promoters spanning over three decades in building construction industry, executing projects for various government and semi-government agencies.

The ratings, however, remain constrained by the high consolidated leverage (Total Outside Liabilities/Tangible Net Worth of 2.6 times in FY2022). The ratings factor in the exposure to execution risk for hybrid annuity model (HAM) projects with around 48% of its outstanding order book being in the nascent stages of execution (less than 25% completion). Nonetheless, ICRA expects the company to receive EoT for the same as execution was impacted by client-related delays. Its order book is exposed to geographical concentration risk with over 60% of the projects located in Maharashtra. Further, the top five projects accounted for 65% of the outstanding order book as on March 31, 2022.

ICRA notes that HCPL’s joint venture (JV), HPM Infra LLP is executing road projects including three HAM projects awarded by Public Works Department (PWD), Maharashtra. While financial closure and equity infusion for all the three HAM projects were completed, the projects have faced delays due to pandemic-related disruptions, which could result in cost overruns. So far, the projects received EOT till March 31, 2022. The company expects further extensions and targets to complete the same by December 2022. ICRA notes that the consolidated debt levels are likely to peak by December 2022 once the HAM projects draw down debt fully.

The Negative Outlook reflects ICRA’s expectation that HCPL’s credit profile is expected to remain under pressure in the near to medium term, given in its stretched liquidity position. Going forward, timely realisation of sticky receivables and the company’s ability to get necessary approvals on time are crucial from the credit perspective.

Key rating drivers and their description

Credit strengths

Established track record of the promoters in executing civil construction contracts - The promoter Mr. Vilas Birari has an extensive 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 a JV with partners with prior execution track record as well as terrain knowledge

Healthy order book position - The company's healthy order book provides medium-term revenue visibility. As on March 31, 2022, HCPL's outstanding order book position stood at Rs. 1,001 crore (OB/OI of 3.3 times based on FY2022 revenues). These projects are expected to be executed over the next 24 to 36 months, providing medium-term revenue visibility.

Credit challenges

High consolidated leverage - The company's TOL/TNW as on March 31, 2022 remained at 2.6 times at the consolidated level. The consolidated debt levels are expected to peak by December 2022 once the HAM projects draw down debt fully. While the debt coverage indicators remained adequate as indicated by interest coverage of 3.9 times and DSCR of 1.6 times in FY2022, the cash flows and liquidity position remain stretched because of an elongated working capital cycle. Going forward, timely realisation of receivables and enhancement in working capital lines remain crucial to improve its liquidity position.

Geographical concentration risks and limited project diversification - At the standalone level, around 60% of the outstanding order book is concentrated in Maharashtra and the top five projects account for nearly 65% of the outstanding order book. While the geographical concentration of projects supports optimal resource deployment at the same time, its impact on the company's revenues could be severe if the region of operations gets impacted by unforeseen risks (viz. heavy rains, lockdowns, change in government, etc).

Execution risks - With 48% of projects in the nascent stages of execution (less than 25% complete as on March 31, 2022), the company remains exposed to risks associated with delays in these projects. Out of the current outstanding order book as on March 31, 2022, most of the projects have been delayed. HCPL has received EOT for the same. While financial closure and the equity infusion for all the three HAM projects have already been completed, the projects were delayed by pandemic-related disruptions, which could result in cost overruns. So far, the projects have received EOT till March 31, 2022 and the company expects further extensions and targets to complete the projects by December 2022.

Liquidity position: Stretched

HCPL's liquidity is stretched due to slow pace of bill realisation, which has resulted in high working capital build-up and thus, fund-based working capital limits remaining almost fully utilised as of June 2022-end. Consequently, timely enhancement in working capital limits, along with realisation of receivables, remains crucial to avoid any cash flow mismatches.

Rating sensitivities

Positive factors - The outlook may be revised to Stable if there is a significant improvement in execution and receivables reducing its net working capital intensity and/or the company demonstrates a considerable improvement in its liquidity position.

Negative factors - Negative pressure on the ratings could arise if HCPL is unable to speed up the pace of execution or if there any further deterioration in its working capital cycle. Also, any significant increase in exposure to HAM projects may also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation Construction Entities Roads - Hybrid Annuity
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of HCPL, HPM Infra LLP 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

Incorporated in 1990 by Mr. Vilas K. Birari, Harsh Construction Pvt. Ltd. (HCPL) is a construction company based at Nashik, Maharashtra. It constructs buildings such as housing projects, commercial complexes, airport buildings healthcare facilities, and educational institutions for government, semi-government agencies as well as private parties. It is registered as a Class-1A contractor with PWD Maharashtra.

Key financial indicators

Standalone	FY2020	FY2021	FY2022*
Operating income (Rs. crore)	388.9	226.9	270.5
PAT (Rs. crore)	20.4	10.9	18.5
OPBDIT/OI (%)	8.2%	10.7%	14.5%
PAT/OI (%)	5.2%	4.8%	6.9%
Total outside liabilities/Tangible net worth (times)	1.9	1.7	1.5
Total debt/OPBDIT (times)	1.4	2.9	2.0
Interest coverage (times)	3.7	2.6	4.0

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug 4, 2022	Jul 2, 2021	May 29, 2020	Feb 14, 2020
1	Fund Based - Cash Credit	Long-term	65.00	NA	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Non-fund Based Facilities	Long-term/ Short-term	159.00	NA	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2
3	Unallocated Limits	Long-term/ Short-term	11.00	NA	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based Cash Credit	Simple
Long-term/Short-term - Non-fund Based Facilities	Very Simple
Long-term/Short-term - Unallocated Limits	Not applicable

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based - Cash Credit	NA	NA	NA	65.00	[ICRA]BBB (Negative)
NA	Non-fund Based Facilities	NA	NA	NA	159.00	[ICRA]BBB (Negative)/[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	11.00	[ICRA]BBB (Negative)/[ICRA]A3+

Source: Harsh Construction Pvt. Ltd.

Annexure II: List of entities considered for consolidated analysis

Company Name	HCPL Ownership	Consolidation Approach
Harsh Construction Private Limited	100% (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: Company

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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.

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