

April 25, 2023^(Revised)

H.G. Infra Engineering Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	140.0	300.0	[ICRA]AA- (Stable); reaffirmed/assigned
Non-fund based – Bank guarantee	1300.0	00.0	-
Long-term/Short-term – Non-fund based – Bank guarantee	100.0	1900.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed/assigned
Non-convertible debenture (NCD) programme	97.0	97.0	[ICRA]AA- (Stable); reaffirmed
Total	1637.00	2,297.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for H.G. Infra Engineering Limited's (HGIEL) factors in its healthy execution ramp-up in FY2023e resulting in estimated revenues of Rs. 4,300-4,500 crore and a sizeable order book (~Rs. 12,600 crore as on March 31, 2023), which provides strong medium-term revenue visibility. The ratings continue to favourably note the company's comfortable financial profile, as reflected in its stable and healthy operating margins (~16%), low leverage (TOL/TNW of <1.0 times) and robust debt coverage metrics. The ratings draw comfort from the promoters' long track record in the civil construction business and established relation with its key clientele, consisting of Government bodies like the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+) and the Ministry of Road Transport and Highways (MoRTH), and private road developers like Tata Projects Limited, IRB, etc. Its consistent focus on quality construction and timely delivery resulted in repeat projects (from key clients) and early-completion bonus payments, which is an indication of its strong execution capabilities. Given its healthy project pipeline, ICRA expects HGIEL to maintain a healthy revenue growth of ~18-20%, steady operating margins (~16%) and comfortable leverage and coverage indicators in FY2024.

HGIEL has twelve HAM projects in its portfolio (three have received COD, six are under-construction and the remaining have been recently awarded) and has a total equity commitment of ~Rs. 1,610 crore. Of this, it infused ~Rs. 740 crore as on March 31, 2023, and the balance Rs. 870 crore of equity is expected to be infused over the next three years. The estimated cash flow from operations are likely to be sufficient for the equity commitments towards these HAM projects and the scheduled debt repayments. However, addition of multiple new HAM projects in the order book (as witnessed over the past two-three years), leading to higher equity commitment, could have a bearing on the liquidity. Hence, timely monetisation of HAM assets remains a key rating monitorable.

The rating strengths are partially offset by the pending execution risks for the newly awarded projects. However, a strong track record of timely completion mitigates the risk to an extent. The ratings factor in the increased project concentration risk, with addition of Ganga Expressway (Group-2) from Adani Road Transport Limited (ARTL) in FY2023, which alone contributes to ~32% of the outstanding order book as on March 31, 2023e. The company's ability to complete the project in a timely manner, given the large scale, along with timely realisation of payments from ARTL remains a key monitorable. It also remains exposed to high segment and client concentration risks with ~90% of order book consisting of road works, mainly from the NHAI and ARTL. With addition of new orders from the railway and metro divisions, the segment concentration risk will get mitigated to some extent. Over the medium term, the company is planning to enter drinking water projects (under Jal Jeevan Mission), which should aid segmental diversification going forward. Given the increasing scale of operations and sizeable equity

commitments, HGIEL's ability to judiciously manage its working capital cycle and maintain its execution ramp-up remain important from the credit perspective. The debt structure has cross-default linked debt acceleration clause, which if materialises, could expose the company to refinancing risk.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would witness a sustained revenue growth over the medium term on the back of a healthy order book, strong execution capabilities and established relationship with reputed clientele.

Key rating drivers and their description

Credit strengths

Healthy scale of operations – HGIEL is expected to book healthy revenue growth of ~20% in FY2023 (translating to a top line of Rs. 4,200-4,400 crore), driven by a healthy order book and order execution pace. It received a strong order inflow of ~Rs. 9,000 crore in FY2023, resulting in outstanding order book of ~Rs. 12,600 crore as of March 2023 (up from ~Rs. 7,975 crore as of March 2022). This translates into OB/OI of FY2023 of 2.9 times, up from 2.2 times as of March 2022. The orders are executable over an average period of 24 to 36 months, providing healthy medium-term revenue visibility. Moreover, the geographically diversified (across 10 states) order book mitigates the risk of any adverse regional developments impacting the execution pace.

Experienced management; track record of timely completion of projects – HGIEL has a track record of over 20 years in operation and its promoters have over four decades of experience in the Indian civil construction business. The company has strong execution capabilities, reflected in several instances of timely/early completion of projects, which made it eligible for early-completion bonus payments in a few projects.

Comfortable financial profile with healthy debt coverage metrics – HGIEL's financial profile remained comfortable in FY2023e, backed by healthy revenue growth (~20%), stable and healthy operating margins (~16%) and a conservative capital structure translating to healthy debt coverage metrics (interest cover of >10 times and TD/ OPBDITA of <1.0 times) at a standalone level. ICRA expects HGIEL's credit metrics to remain strong over the medium term, backed by low debt levels and stable operational performance. Further, likely monetisation of four of its HAM projects could potentially strengthen its liquidity position and remains a key monitorable.

Credit challenges

High project concentration and execution risk – With major orders being awarded over the last six months, 75% of the company's order book is in the nascent stage with less than 20% progress in execution. This exposes HGIEL to moderately high execution risk. Moreover, it faces high segmental and client concentration risks, with road projects from the NHAI and ARTL accounting for ~90% of order book as on December 31, 2022. The project concentration risk has increased significantly with one large order, viz. Ganga Expressway, contributing to ~32% of the estimated order book as on March 31, 2023. Its ability to complete the project in timely manner given the large scale, along with timely realisation of payments from ARTL, remains a key monitorable.

Sizeable equity commitment for its HAM projects – HGIEL has twelve HAM projects (three operational, six under-construction, and three newly awarded) and has a total equity commitment of ~Rs. 1,610 crore. Of this, it infused ~Rs. 740 crore as on March 31, 2023, and the balance Rs. 870 crore of equity is expected to be infused over the next three years. The estimated cash flow from operations are likely to be sufficient for meeting these forthcoming commitments. Moreover, the company is planning to monetise a few of its completed HAM projects over the next six months, which if materialises should aid in unlocking capital and improving liquidity. However, any significant increase in equity commitments, due to the addition of new HAM projects, would remain a key monitorable.

Environment and social consideration

Environmental consideration: HGIEL operates at multiple project sites at any point of time and therefore the risk of business disruptions on account of physical climate risks is low. However, the cluster approach (which provides operational efficiencies resulting in time and cost saving) might increase the risk to some extent, compared to other engineering, procurement and construction (EPC) players. Given that construction activity generates air pollution, entities like HGIEL remain vulnerable to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality, which exposes the company to the price escalation risk. Nevertheless, most of its projects have price escalation clauses and it seeks compensation from the client if there is delay on account of environmental issues, geographical issues, etc.

Social consideration: Construction entities like HGIEL face social risks stemming from the health and safety concerns of its workers, which could invite regulatory or legal action, besides reputational harm. However, it has a track record of maintaining healthy relationships with its workers/employees, including contractual labour with no material incidents of a slowdown in execution because of workforce management issues.

Liquidity position: Adequate

HGIEL's liquidity remains adequate with healthy cash flows from operations, supported by a stable working capital cycle and undrawn fund-based working capital limits of Rs. 240 crore as on March 31, 2023. The average utilisation of its fund-based limits during the six-month period that ended in December 2022 was moderate at 51%. The company has repayments of ~Rs. 145 crore and equity commitment of ~Rs. 460 crore in FY2024. HGIEL is likely to incur capex of Rs. 100-120 crore. The estimated cash flows from operations, along with lines of credit available are expected to be sufficient for meeting its financial obligations. Further, likely monetisation of four of its HAM projects could also support its liquidity position going forward.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a sustained improvement in its scale and business diversification while maintaining the profitability margins and ensuring substantial improvement in its liquidity position on a consistent basis.

Negative factors – Pressure on the ratings could arise if the financial risk profile weakens due to a slowdown in execution of projects or if the profitability moderates, or if there is any increase in the working capital cycle. The ratings may be downgraded if delays in execution of the ongoing HAM projects, or a significant increase in the commitment towards the HAM projects weaken the liquidity position. A specific credit metric which could result in rating downgrade is an interest cover of less than 7 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 financials of HGIEL with its subsidiaries (Refer Annexure II). ICRA has fully consolidated the under-construction special purpose vehicles (SPVs), where HGIEL has extended corporate guarantee for the full tenure of the debt. For other SPVs, ICRA has undertaken limited consolidation factoring in the expected funding requirements (equity/ cost overrun support/ operational shortfall), if any.

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. HGIEL is accredited AA class by the Public Works Department (PWD) of the Government of Rajasthan (GoR) and is registered as an SS class contractor by the Military Engineer Services (MES). HGIEL, along with its twelve HAM SPVs, is primarily involved in the construction of roads and highways in Odisha, Telangana, Rajasthan, Delhi, Andhra Pradesh, Haryana, and Uttar Pradesh.

Key financial indicators (audited)

HGIEL Standalone	FY2021	FY2022	9M FY2023
Operating income	2,528	3,615	2,949
PAT	211	339	274
OPBDIT/OI	16.2%	16.2%	16.0%
PAT/OI	8.3%	9.4%	9.3%
Total outside liabilities/Tangible net worth (times)	1.1	0.7	-
Total debt/OPBDIT (times)	0.7	0.5	-
Interest coverage (times)	6.9	11.1	10.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2021		Date & Rating in FY2021	
				25-Apr-23	26-Apr-22	13-Dec-21	2-Jul-21	25-Jan-21	7-Jan-21
1 Cash credit	Long-term	300.0	NA	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Positive)	[ICRA]A(Stable)	[ICRA]A(Stable)
2 Letter of credit and Bank guarantee	Short-term	0.0	NA	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3 Bank guarantee	Long-term/Short-term	1900.0	NA	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Positive)/[ICRA]A1	[ICRA]A+(Positive)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/A1
4 Non-convertible debentures	Long-term	97.0	97.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	-	-	-

Complexity level the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Bank guarantee	Very Simple
Non-convertible debenture	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	300.0	[ICRA]AA- (Stable)
NA	Bank guarantee	NA	NA	NA	1900.00	[ICRA]AA- (Stable)/[ICRA]A1+
INE926X07017	Non-convertible debenture	Dec 21, 2021	-	Dec 21, 2024	97.00	[ICRA]AA- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
H.G. Infra Engineering Limited	100.00% (rated entity)	-
Gurgaon Sohna Highway Private Limited	100.00%	Limited Consolidation
H.G. Ateli Narnaul Highway Private Limited	100.00%	Limited Consolidation
H.G. Rewari Bypass Private Limited	100.00%	Full Consolidation
H.G. Rewari Ateli Highway Private Limited	100.00%	Limited Consolidation
H.G. Khammam Devarapalle Pkg-1 Private Limited	100.00%	Limited Consolidation
H.G. Khammam Devarapalle Pkg-2 Private Limited	100.00%	Limited Consolidation
H.G. Raipur Visakhapatnam Ap-1 Private Limited	100.00%	Limited Consolidation
H.G. Raipur Visakhapatnam Od-5 Private Limited	100.00%	Limited Consolidation
H.G. Raipur Visakhapatnam Od-6 Private Limited	100.00%	Limited Consolidation

Source: Company, ICRA Research

Corrigendum

Document dated April 25, 2023, has been corrected with revisions as detailed below:

Section where revision has been made	Details of change (s) made
Complexity level of rated instrument, Page 5	Complexity Indicator of Non-convertible Debenture has been corrected to 'Simple' from 'Very Simple', inline with ICRA's policy document on complexity indicators, dated May 2021

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