May 18, 2023

Hariharan Foundations Private Limited: Ratings reaffirmed; outlook on long-term rating revised to Positive from Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Fund-based – Term loan	0.00	19.70	[ICRA]BBB (Positive); assigned
Fund-based – Overdraft	5.00	5.00	[ICRA]BBB (Positive); reaffirmed and outlook revised to Positive from Stable
Non-fund based – Bank guarantee	62.50	77.50	[ICRA]A2; reaffirmed/assigned
Non-fund based – Letter of credit	5.00	5.00	[ICRA]A2; reaffirmed
Total	**72.50**	**107.20**	

**Instrument details are provided in Annexure I*

Rationale

The revision in long-term rating outlook to Positive from Stable for Hariharan Foundations Private Limited's (HFPL) factors in healthy outstanding order book (OB) of around Rs. 490 crore as on March 31, 2023 (1.6 times OB/operating income (OI) of FY2023), which provides medium-term revenue visibility. In FY2023, the company's revenues are estimated to be around Rs. 350-360 crore, marking a significant 66-68% YoY growth, backed by healthy order inflows during the last two years and timely execution of the same. Its revenues are estimated to increase by 5-10% YoY in FY2024, supported by the outstanding order book and expected new order inflows. With improvement in revenues and better absorption of fixed cost, the operating margins are likely to improve to around 8.5%-9.0%. The ratings continue to factor in HFPL's operational track record of around two decades in the civil construction business, which helps to secure repeat orders from its reputed customers.

The ratings consider HFPL's comfortable financial profile as reflected in the moderate leverage with estimated TOL/TNW at 1.3 times and healthy debt coverage metrics with an interest coverage of 8.7 times as on March 31, 2023. With limited debt-funded capex, healthy improvement in revenues and operating profits, its leverage and coverage metrics are likely to remain comfortable over the medium term. The ratings factor in the company's diversified operations generating income from contract activities (~90% of total estimated sales in FY2023) supplemented by revenue from the sale of ready-mix concrete (RMC) and pre-engineered solutions for building and structural steel fabrication.

The ratings are, however, constrained with HFPL being exposed to geographical concentration risk, with its unexecuted order book concentrated primarily in Andhra Pradesh (55% of the outstanding order book) and Tamil Nadu (34% of the outstanding order book). Although it is entering into new states, the overall contribution from other states remains low. Further, the company's order book primarily consists of the industrial construction segment. Despite a significant increase in revenues over the last two years, the OI remains moderate with expected revenues of around Rs. 355-360 crore in FY2024. While HFPL has secured contracts from different end-user industries (logistics park, chemical, automobile, etc), it remains exposed to the cyclicality risks in private sector capex as its order book is fully from private sector entities. Hence, timely receipt of new orders remains critical to support its medium-term growth prospects. The operating margins are exposed to stiff competition and volatility in raw material prices. An increase in raw material prices might adversely affect HFPL's operations on account of the absence of price escalation clauses in some of the projects.

Key rating drivers and their description

Credit strengths

Healthy outstanding order book provides revenue visibility – Backed by significant order inflows over the last two years (around Rs. 350 crore in FY2022 and Rs. 430 crore in FY2023), the company has a healthy outstanding order book of Rs. 490.0 crore as on March 31, 2023, translating to an order book to OI of 1.6 times providing medium-term revenue visibility. In FY2023, the revenues are estimated to be around Rs. 350-360 crore, marking a significant 66-68% YoY growth, driven by healthy order inflows and timely execution of the same. The revenues are estimated to increase by 5-10% YoY in FY2024, supported by the outstanding order book and expected new order inflows. Further, with improvement in revenues and better absorption of fixed cost, the operating margins are likely to improve to around 8.5%-9.0%.

Long track record of operations and diversified operations of the Group – The company has an operational track record of close to two decades in the civil construction business, which helps it secure repeat orders from reputed customers. HFPL's reputed client profile includes MRF, Indospace, Deccan Fine Chemicals, etc, which mitigates the counterparty risk to an extent. It is involved in the production of RMC and through its subsidiary Hariharan Steel Private Limited (HSPL) incorporated in 2020, it provides pre-engineered solutions for building and structural steel fabrication.

Comfortable financial profile – The ratings consider HFPL's comfortable financial profile as reflected in the moderate leverage with estimated TOL/TNW at 1.3 times and healthy debt coverage metrics with an interest coverage of 8.7 times as on March 31, 2023. With limited debt-funded capex, healthy improvement in revenues and operating profits, its leverage and coverage metrics are likely to remain comfortable over the medium term.

Credit challenges

Exposure to geographical concentration risk – HFPL's operations are exposed to geographical concentration risk with the outstanding order book being largely concentrated with orders from Andhra Pradesh (54% of the order book) and Tamil Nadu (33% of the order book). Although the company is entering into new states, its overall contribution from other states remains low. Despite a significant increase in revenues over the last two years, the OI remains moderate with expected revenues of around Rs. 355-360 crore in FY2024.

Prospects linked to private sector capex – The company's contract activities are primarily in the industrial construction segment. While HFPL has been able to secure contracts from different end-user industries (logistics park, chemical, automobile, etc), it remains exposed to the cyclicality risks in private sector capex. Hence, timely receipt of new orders remains critical to support the growth prospects in the medium term.

Operating margins exposed to raw material fluctuations and intense competition – The operating margins are exposed to increased competition and volatility in raw material prices. A rise in raw material prices might adversely affect HFPL's operations on account of the absence of price escalation clauses in some of the projects**.**

Liquidity position: Adequate

HFPL's liquidity remained adequate with free cash and liquid investments of Rs. 25.7 crore as on March 31, 2023. The average utilisation of the fund-based limits has been low at around 9% of the sanctioned limits in the last twelve months ending March 2023. It has a repayment obligation of Rs. 8.0 crore in FY2024, which can be comfortably serviced from its estimated cash flows from operations. It has capex plans of Rs. 10-15 crore in FY2024 and FY2025 towards purchase of new machinery depending on order inflow, which is expected to be funded by a mix of term loan and internal accruals, in the ratio of 70:30.

Rating sensitivities

Positive factors – ICRA can upgrade HFPL's ratings if there is a sustained increase in order intake/execution and earnings while maintaining its comfortable liquidity position.

Negative factors – Negative pressure on HFPL's ratings could arise if there is a significant decline in revenue and earnings or decline in order book position, on a consistent basis, along with deterioration in the working capital cycle adversely impacting its liquidity position. Specific credit metric for a downgrade includes TOL/TNW increasing beyond 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities Methodology Rating approach - consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings of HFPL, ICRA has considered the consolidated financials of HFPL. List of entities forming part of HFPL's consolidated financials are enlisted in Annexure II.

About the company

Hariharan Foundations Private Limited is a certified construction company. It is involved in building industrial facilities and is primarily into civil construction works. The company operates ready-mix concrete (RMC) batching plants at Tamil Nadu and Andhra Pradesh with an installed capacity of 2.25 lakh cubic metre per year. HFPL has diversified into pre-engineered solutions for building and structural steel fabrication in FY2021 and created a wholly-owned subsidiary, namely Hariharan Steel Private Limited (HSPL) for the same. HSPL has a state-of-the-art manufacturing facility in Sri City, Tada with a factory area of 50,000 sft and stock yard of 2,80,000 sft.

Key financial indicators

HFPL (Consolidated)	FY2021	FY2022	9M FY2023
	Audited	Audited	Provisional
Operating income	134.5	214.1	221.3
PAT	5.4	10.3	13.1
OPBDIT/OI	5.5%	7.7%	9.5%
PAT/OI	4.0%	4.8%	5.9%
Total outside liabilities/Tangible net worth (times)	0.6	1.1	1.5
Total debt/OPBDIT (times)	0.0	0.5	1.4
Interest coverage (times)	6.0	6.5	9.6

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

Status of non-cooperation with previous CRA

CRA	Status	Date of release
CRISIL	CRISIL B+ /Stable/ A4 (ISSUER NOT COOPERATING)	December 12, 2022
BRICKWORK	BWR BB-/Stable/A4 (Downgrade/ISSUER NOT COOPERATING)	January 31, 2023

Any other information: None

Rating history for past three years

Sl. No.	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 18, 2023	-	Mar 03, 2022	-
1	**Term loans**	Long term	19.70	17.67	**[ICRA]BBB (Positive)**	-	-	-
2	**Fund-based – Overdraft**	Long term	5.00	-	**[ICRA]BBB (Positive)**	-	**[ICRA]BBB (Stable)**	-
3	**Non-fund based – Bank guarantee**	Short term	77.50	-	**[ICRA]A2**	-	**[ICRA]A2**	-
4	**Non-fund based – Letter of credit**	Short term	5.00	-	**[ICRA]A2**	-	**[ICRA]A2**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund based – Overdraft	Simple
Non-fund based – Bank guarantee	Very Simple
Non-fund based – Letter of credit	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 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	Term loans	Dec 2022	-	Dec-2025	19.70	[ICRA]BBB (Positive)
NA	Fund-based – Overdraft	-	-	-	5.00	[ICRA]BBB (Positive)
NA	Non-fund based – Bank guarantee	-	-	-	77.50	[ICRA]A2
NA	Non-fund based – Letter of credit	-	-	-	5.00	[ICRA]A2

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
Hariharan Steels Private Limited	100.0%	Full Consolidation

Source: Company

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