

February 06, 2024

H.G. Infra Engineering Limited: Ratings reaffirmed and rated amount enhanced; outlook revised from Stable to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	300.0	400.0	[ICRA]AA- reaffirmed/assigned for enhanced limits; Outlook revised to Positive from Stable
Long-term/Short-term – Non-fund based – Bank guarantee	1900.0	2600.0	[ICRA]AA-/ [ICRA]A1+ reaffirmed/assigned for enhanced limits Outlook on long term rating revised to Positive from Stable
Non-convertible debenture (NCD) programme	97.0	97.0	[ICRA]AA- reaffirmed; Outlook revised to Positive from Stable
Total	2,297.00	3097.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Positive reflects expected improvement in H.G. Infra Engineering Limited's (HGIEL) scale of operations, successful divestment of the operational HAM portfolio and reduction in leverage metrics. ICRA notes that HGIEL has divested four of its operational HAM projects for a total consideration of Rs. 531 crore. Of this, the company received Rs. 315 crore in three HAM projects in 9M FY2024, and expects to receive balance amount towards the fourth HAM asset and some GST related balance payments (pertaining to first three HAMs) by Mar-2024. By successfully divesting the stake in its HAM projects, HGIEL is able to recycle its capital which can be deployed to fund its growth along with improvement in leverage and liquidity. ICRA notes the healthy execution ramp-up in FY2024e, with estimated revenues of Rs. 5200-5,400 crore (18%-20% y-o-y growth over FY2023) and expects further ~10-15% YoY growth in FY2025. While fresh order addition was moderate – at ~Rs. 1200 crore in 10M FY2024 – the order book at Rs. 9,626.3 crore (as on Dec 31, 2023; and ~Rs. 10,800 crore after adding the new orders) provides near term revenue visibility.

The ratings continue to favourably factor in the company's comfortable financial profile, as reflected in its stable and healthy operating margins (~16%), low leverage (TOL/TNW of <0.8 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+), the Ministry of Road Transport and Highways (MoRTH), North Central Railway and private road developers like Adani Road Transport Limited (ARTL), IRB Infrastructure Developers Limited (IRB), amongst others. Its track-record of timely delivery resulted in repeat projects (from private sector clients) and early-completion bonus reflects its strong execution capabilities.

HGIEL has eight HAM projects in its portfolio as on Dec 31, 2023 (excluding four assets monetised) of which six are under-construction and two are yet to receive appointed date (AD). These assets entail total equity commitment of ~Rs. 1,256 crore. Of this, it had infused ~Rs. 525 crore as on December 31, 2023, and the balance 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, any significant addition of new BOT projects in the order book, leading to high equity commitments, could have a bearing on the liquidity. Hence, timely divestment of stake in completed BOT projects remains important.

The rating strengths are partially offset by the pending execution risks for the newly awarded projects in Road and Railway segment. However, a strong track record of timely completion mitigates the risk to an extent. The ratings factor in the high project concentration risk, with addition of Ganga Expressway (Group-2) from Adani Road Transport Limited (ARTL) in FY2023, which alone contributed to ~29% of outstanding order book as on September 30, 2023 (32% of the outstanding order book as on March 31, 2023). 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. Also, the high unbilled revenue as on September 30, 2023 resulted in an increased working capital intensity, with NWC/OI at 17% as against 10% as on March 31, 2023. It is expected to moderate going forward supported by completion of project milestones and pick up in pace of execution post monsoon. Any material write-off of unbilled revenues remains a monitorable. The company also remains exposed to high segment and client concentration risks with ~87% 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 ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

Key rating drivers and their description

Credit strengths

Healthy scale of operations– ICRA notes the healthy execution ramp-up in FY2024e, with estimated revenues of Rs. 5200-5,400 crore (18%-20% y-o-y growth over FY2023) and growth by ~10-15% YoY in FY2025. The order book at Rs. 9,626.3 crore as on Dec 31, 2023 coupled with new orders of ~Rs. 1,163 received in January 2024 translate into OB/OI (average FY2023 and FY2024e revenues) of 2.2 times providing near term revenue visibility. Moreover, a geographically diversified order book (across 11 states) mitigates the risk of any adverse regional developments impacting the execution pace. Of the total order book, around 60% is from NHAI (including HAMs and EPC works) and 11% are from various Government authorities (North Central Railways, RVNL, Delhi Metro etc). With a high share of order book from government bodies, the counterparty risk remains low.

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. Its track-record of timely delivery resulted in repeat projects (from private sector clients) and early-completion bonus reflects its strong execution capabilities.

Comfortable financial profile with healthy debt coverage metrics – HGIEL's financial profile remained comfortable in H1 FY2024, backed by healthy revenue growth (~18%), stable and healthy operating margins (~16%) and a conservative capital structure translating to healthy leverage (TOL/TNW <0.8x) and debt coverage metrics (interest cover of >8 times and TD/OPBDITA of <1.0 times) at a standalone level. ICRA expects HGIEL's credit metrics to improve over the medium term, backed by low debt levels and stable operational performance, supported by receipt of monetisation proceeds from sale of four of its completed HAM projects. Moreover, with expected closure for pending sale transaction in the next few months, the corporate guarantee from HGIEL towards Rewai Bypass HAM project debt will also fall-off (tentatively by March 2024).

Credit challenges

High project concentration and execution risk – The company is exposed to moderate execution risk with ~45% of its order book in the nascent stages (i.e. with less than 20% progress, including 2 HAM projects yet to commence) of execution as on Dec 31, 2023. Moreover, it faces high segmental and client concentration risks, with road projects from the NHAI and ARTL accounting for ~87% of order book as on Dec 31, 2023. The project concentration risk remains high, with one large order, viz. Ganga Expressway, contributing to ~27% of the order book as on Dec 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 eight HAM projects in its portfolio as on Dec 31, 2023 (excluding four assets monetised) of which six are under-construction and two are yet to receive appointed date (AD). These assets entail total equity commitment of ~Rs. 1,256 crore. Of this, it had infused ~Rs. 525 crore as on December 31, 2023, and the balance 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, any significant addition of new BOT projects in the order book, leading to high equity commitments, could have a bearing on the liquidity. Hence, timely divestment of stake in completed BOT projects remains important.

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. 236 crore as on Dec 31, 2023. The average utilisation of its fund-based limits during the six-month period that ended in December 2023 was moderate at 51%. The company has principal repayments of ~Rs. 71 crore in Q4FY2024 and Rs. 189 crore in FY2025, and equity commitment of ~Rs. 75 crore and ~Rs. 500 crore (for existing HAM projects) respectively. HGIEL is also likely to incur capex of Rs. 100-150 crore annually. The estimated cash flows from operations, along with balance monetization proceeds of ~Rs. 216 crore are expected to be sufficient for meeting its financial obligations. In addition, the company enjoys flexibility through provision to avail mobilization advances against bank guarantees.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a sustained improvement in its scale of operations and substantial improvement in revenue visibility, backed by healthy order-book addition. Moreover, company's

ability to sustain low leverage and robust debt coverage metrics, supported by realization of proceeds from divestment of BOT projects leading to substantial improvement in liquidity, will also remain vital for a rating upgrade.

Negative factors – Pressure on the ratings could arise if there is a slowdown in order addition and project execution or moderation in profitability, or if there is any deterioration in the working capital cycle. The ratings may be downgraded if delays in execution of the ongoing BOT projects, or a significant increase in the commitment towards the BOT 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
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 eight HAM SPVs, is primarily involved in the construction of roads and highways in Odisha, Telangana, Delhi, Andhra Pradesh, Haryana, and Uttar Pradesh.

Key financial indicators (audited)

HGIEL Standalone	FY2022	FY2023	9M FY2024
Operating income	3,615.2	4,418.5	3,487.2
PAT	338.8	421.4	385.5
OPBDIT/OI	16.2%	16.1%	16.0%
PAT/OI	9.4%	9.5%	11.1%
Total outside liabilities/Tangible net worth (times)	0.7	1.0	-
Total debt/OPBDIT (times)	0.5	0.7	0.4
Interest coverage (times)	11.1	11.2	9.1

Source: ICRA Research, Company data; All ratios are as per ICRA calculations

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: The debt structure has cross-default linked debt acceleration clause, which if materialises, could expose the company to refinancing risk.

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years							
		Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2023 (Rs. crore)	Date & Rating on		Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	
				06-Feb-24	25-Apr-23	26-Apr-22	13-Dec-21	2-Jul-21	25-Jan-21	7-Jan-21	
1 Cash credit	Long-term	400.0	NA	[ICRA]AA-(Positive)	[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	2600.0	NA	[ICRA]AA-(Positive)/[ICRA]A1+	[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	80.8	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	-	-	-	

Complexity level of 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	400.0	[ICRA]AA- (Positive)
NA	Bank guarantee	NA	NA	NA	2600.00	[ICRA]AA- (Positive) / [ICRA]A1+
INE926X07017	Non-convertible debenture	Dec 21, 2021	8%^	Dec 21, 2024	97.00	[ICRA]AA- (Positive)

Source: Company, ^As on date of allotment, subject to reset every 6 months from the deemed date of allotment

[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)	-
H.G. Rewari Bypass Private Limited	100.00%	Full 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
H.G. Karnal Ring Road Private Limited	100.00%	Limited Consolidation
H.G. Varanasi-Kolkata Pkg-10 Highway Private Limited	100.00%	Limited Consolidation
H.G. Varanasi-Kolkata Pkg-13 Highway Private Limited	100.00%	Limited Consolidation

Source: Company, ICRA Research

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