

February 14, 2020

Harsh Constructions Pvt. Ltd.: Ratings re-affirmed; limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	45.00	45.00	[ICRA]BBB+ (Stable); re-affirmed
Non-Fund based limits	105.00	120.00	[ICRA]BBB+ (Stable)/[ICRA]A2; re-affirmed
Total	150.00	165.00	

*Instrument details are provided in Annexure-1

Rationale

The re-affirmation of ratings of Harsh Constructions Pvt. Ltd. (HCPL) continue to take into account the healthy revenue visibility by virtue of the strong order-book position of over Rs. 1700 crore as on December 31, 2019 which is 3.8 times the consolidated¹ operating income (OI) of FY2019. The ratings also factor in the comfortable financial risk profile with healthy coverage metrics with TD/OPBITDA of 1.6 times as on March 31, 2019 and interest coverage of 4.9 times in FY2019. ICRA notes that the shift in HCPL's focus towards execution of higher value projects in order to improve operation efficiency has led to improvement in operating margins. The ratings of HCPL continue to factor in the established track record of the promoters spanning over nearly three decades in building construction for various government agencies.

The ratings, however, are constrained by moderate execution risk on account of nearly 75% of the outstanding orders being in nascent stages of execution (upto 25% executed). However, ICRA notes that execution across some of the projects was impacted either by design approval related delays or by extended monsoon in the region of HCPL's operations during the current fiscal. Nonetheless, the execution has gained pace from December 2019 onwards and extension of timeline, wherever necessary, is either in place or has been applied for. With over 70% of the projects located in Maharashtra, the order-book is exposed to geographical concentration risks. Out of the outstanding order-book, nearly 30% is under HCPL's joint venture (HPM Infra LLP) which is executing road projects including the three BOT (HAM) projects. HCPL has limited experience in the development business and in the road segment thus exposing it to execution related risks, however, the risk is mitigated to an extent as it has entered into joint venture with with experienced partners² to jointly execute these projects. The ratings are also constrained by high consolidated leverage with TOL/TNW of 2.5 times as on March 31, 2019 (as against 2.2 times as on March 31, 2018) on account of elongated working cycle as sizeable number of projects were in initial stages of execution leading to higher unbilled revenue which in turn was funded by creditors. HCPL has undertaken three BOT (HAM) projects with other JV partners. The consolidated debt levels are expected to peak by March 2022. The total equity requirement (including unsecured loans) for the HAM projects is Rs. 57 crore of which Rs. 25 crore was infused till December 31, 2019 and around Rs. 28 crore would be infused in Q4 FY2020 and Q1 FY2021. The ratings

¹ HCPL(consolidated) includes standalone and its JVs (full consolidation; refer Annexure-2).

² HPM Infra Llp is a joint-venture of HCPL, Pawar Patkar Construction Pvt. Ltd. (PPCPL; rated [ICRA]BBB-/Stable/[ICRA]A3+) and M. T. Patil Builders Contractors Pvt. Ltd. (MTPL) with each partner having equal shareholding. HCPL, PPCPL and MTPL have formed three special purpose vehicles (SPVs), namely, HMP Buildcon Private Limited, HMP Builders Private Limited and HMP Contractors Private Limited, for executing Build-Operate-Transfer (BOT) projects under hybrid annuity model awarded by PWD, Maharashtra.

are also constrained by the stretched liquidity position of the company as reflected by high average fund-based utilization against sanction limit of 95% (with nearly 100% utilisation in two of the months) over last fifteen months. Therefore, ability of the company to secure timely enhancement in working capital limits would be important to support the expected growth in turnover.

Key rating drivers and their description

Credit strengths

Strong order book position provides medium term revenue visibility- As on December 31, 2019, HCPL's consolidated outstanding order-book position was over Rs. 1700 crore (OB/OI of 3.8 times based on FY2019). These projects are expected to be executed over the next 24 to 36 months, providing medium-term revenue visibility at consolidated level.

Comfortable financial risk profile with healthy coverage metrics – During FY2015 to FY2019, HCPL has grown at a CAGR of 13% at standalone level and 17% at consolidated level. With improvement in scale and focus on larger projects, the consolidated operating margin improved to 14.6% in FY2019 from 12.8% in FY2018. Despite increased working capital blockage, the debt coverage indicators remained healthy as on March 31, 2019; TD/OPBITDA of 1.6 times and interest coverage of 4.9 times at consolidated level.

Established track record of the promoters in executing civil construction contracts for government and semi-government agencies - The promoter Mr. Vilas Birari has a rich 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, the company has entered joint venture with partners with good execution track record as well as terrain knowledge.

Credit challenges

Moderate execution risk - With nearly 75% of projects in nascent stages of execution (less than 25% complete as of December 31, 2019), the company remains exposed to risk associated with delays in these projects. ICRA takes note that some of these projects were impacted by design approval related delays or by extended monsoon in the region of HCPL's operations during the current fiscal. ICRA notes that the execution has gained pace from December 2019 onwards and extension of timeline, wherever necessary, is either in place or has been applied for. Out of the outstanding order-book, nearly 30% is under HCPL's joint venture (HPM Infra LLP) which is executing road projects including the three BOT (HAM) projects. HCPL has limited experience in the development business and in the road segment thus exposing it to execution related risks, however, the risk is mitigated to an extent as it has entered into joint venture with with experienced partners

High consolidated leverage - The consolidated leverage is high with TOL/TNW at 2.5 times as on March 31, 2019 on account of increased working capital blockage as sizeable number of projects were in initial stages of execution. The consolidated debt levels are expected to peak by March 2022. The Total Debt/OPBITDA is expected to look skewed from FY2022 onwards owing to longer tenure of this debt (six to seven years), however the credit profile is expected to be comfortable.

Equity commitment to BOT (HAM) projects – The company through its JVs (with PPCPL and MTPL) is executing three BOT projects under hybrid annuity mode. The total equity requirement (including unsecured loans) for the

HAM projects is Rs. 57 crore of which Rs. 25 crore was infused till December 31, 2019 and around Rs. 28 crore would be infused in Q4 FY2020 and Q1 FY2021.

Moderate order-book concentration due to limited geographic diversification– At consolidated level, over 70% of the outstanding order-book is concentrated in Maharashtra and is exposed to geographical concentration risks.

Liquidity position: Stretched

HCPL's liquidity is **stretched** on account of blockage of working capital (as reflected by high average fund-based limits utilisation). In FY2020 and FY2021, the cashflows from operations are expected to be healthy and sufficient to service the debt obligations. However, dependence of bank borrowing is expected to increase for supporting the construction work related to the HAM SPVs. Therefore, ability of the company to secure timely enhancement in working capital limits would be important to support the expected growth in turnover.

Rating sensitivities

Positive triggers – ICRA could upgrade HCPL's rating if the gross billing is significantly higher than anticipated with improvement in profitability while maintaining the working capital cycle. Specific credit metrics that could lead to an upgrade include consolidated TOL/TNW of below 1.5 times on a sustained basis.

Negative triggers – Negative pressure on HCPL's rating could arise if, there is lower than anticipated billing or any further elongation in working capital cycle. Any delay in enhancement of working capital limits or sustained high levels of fund based limit utilisation with no cushion will be credit negative. Also, any significant cost over run for the HAM projects which may result in higher than anticipated equity support from HCPL may impact the ratings negatively.

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 financials of HCPL, HPM Infra 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 (refer Annexure-2).

About the company

Founded in 1990 by Mr. Vilas K. Birari as a proprietorship firm, HCPL was incorporated in 2009. HCPL is a construction company based at Nashik, in Maharashtra, and undertakes construction of buildings such as housing projects, commercial complexes, airport buildings healthcare facilities, and educational institutions for government agencies as well as private parties. It is registered as 'Class-1A Contractor' with PWD Maharashtra.

Key financial indicators (audited, Standalone)

	FY2018	FY2019
Operating Income (Rs. crore)	293.3	314.7
PAT (Rs. crore)	17.6	20.2
OPBDIT/OI (%)	10.8%	11.8%
RoCE (%)	41.0%	30.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.86	1.78
Total Debt/OPBDIT (times)	1.07	1.25
Interest Coverage (times)	6.78	6.18
DSCR	4.13	3.72

Source: HCPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					14-Feb-2020	13-Feb-2019		
1	Fund-based limits	Long Term	45.0		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
2	Non-Fund based limits	Long Term/ Short Term	120.0		[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2		

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits				45.00	[ICRA]BBB+ (Stable)
NA	Non-Fund based limits				120.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: HCPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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

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