

August 04, 2022

HMP Buildcon Private Limited: Rating downgraded to [ICRA]BBB-(CE) (Negative)/[ICRA]A3(CE)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	60.00	60.00	[ICRA]BBB-(CE) (Negative); downgraded from [ICRA]BBB(CE) (Negative)
Non-fund Based Facilities	(12.84)	(12.84)	[ICRA]BBB-(CE) (Negative)/[ICRA]A3(CE); downgraded from [ICRA]BBB(CE) (Negative)/[ICRA]A3+(CE)
Total	60.00	60.00	

Rating Without Explicit Credit Enhancement*	[ICRA]BB+/[ICRA]A4+
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*Instrument details are provided in Annexure I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above ratings of HMP Buildcon Private Limited (HMP Buildcon) are based on the strength of the corporate guarantee provided by Harsh Construction Pvt. Ltd. (HCPL), for the rated bank facilities. The downgrade in the ratings of HMP Buildcon reflects ICRA's downgrade on the rating of the guarantor, HCPL.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantee issued by HCPL in favour of the said facility. While the guarantee is legally enforceable and unconditional and covers the entire amount and tenure of the rated facility, it does not have a well-defined invocation and payment mechanism. After taking this into consideration, ICRA has assigned a rating of **[ICRA]BBB-(CE) (Negative)/[ICRA]A3(CE)** to the said facility against the Unsupported Ratings of [ICRA]BB+/[ICRA]A4+ [and in relation to the guarantor's (HCPL) ratings of [ICRA]BBB (Negative)/[ICRA]A3+]. In case the rating of the guarantor or the Unsupported Rating of HMP Buildcon were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- The borrower shall not raise any debt except as permitted by the lender or provide any guarantee or create any security interest except in favour of the lender for this facility without prior approval from the lender.
- Term loan to sponsors contribution shall not be greater than 2.78:1.
- Public Works Department's (PWD) contribution received to sponsor's contribution ratio shall not be greater than 6:1.
- DSCR of at least 1.10 times to be maintained throughout the tenor of the facility.
- The borrower shall not pay dividends (either in cash or property) or make distributions in respect of equity.
- Borrower shall not make any investment in any entity (other than investments permitted by lender).
- Borrower shall not redeem for value, any indebtedness of the borrower that is subordinated to the facility.
- Borrower shall not effect any change in borrower's capital structure where shareholding of the existing Sponsor(s) gets diluted below current level of 51% of controlling stake, without prior permission of the Bank.

- Borrower shall not pledge promoter's shares in the borrowing entity to any Bank/NBFC/Institution without prior consent of the bank

Key rating drivers and their description

Credit strengths

Project to be executed under HAM - The inherent benefits of the hybrid annuity model (HAM) project include upfront availability of right of way, inflation-linked revisions to bid for project cost during the construction period and relatively low equity mobilisation risk, with 60% of the project cost to be funded by the authority during the construction period in the form of a grant. The project will have a stable revenue stream post-commissioning as 40% of the remaining project cost will be paid out as annuity (adjusted for inflation) over the term of the concession.

Corporate guarantee from HCPL - The rating takes support from the profile of the sponsor – HCPL (rated at [ICRA]BBB (Negative)/[ICRA]A3+). The rating for the bank facilities of Rs. 60.00 crore is based on the strength of the corporate guarantee provided by HCPL.

Credit challenges

Execution risk - The project is exposed to moderate execution risk, with 85% completion as on June 30, 2022. So far, the project received extension of timeline till March 31, 2022. The company expects further extensions and targets to complete the projects by December 2022. Thus, execution pace will have to be ramped up over the coming months to bridge the gap.

Project returns exposed to interest rate risk - HMP Buildcon's cash flows are exposed to interest rate risk, considering the floating nature of interest rates for the project loan. However, the risk is mitigated to some extent as the interest on the outstanding annuities is linked to the Bank Rate.

Liquidity position for HCPL (Guarantor): Stretched

The liquidity position of the guarantor, HCPL, is stretched due to slow pace of bill realisation, which has resulted in high working capital build-up and almost full utilisation of its fund-based working capital limits 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.

Liquidity position for HMP Buildcon: Stretched

HMP Buildcon's liquidity is stretched due to pending cost of Rs. 34 crore as on June 30, 2022, against which it is yet to receive PWD's grant worth Rs. 26 crore and debt disbursement of Rs. 33 crore. Thus, timely receipt of the pending grants will be crucial to complete the project as per the scheduled timeline.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is any improvement in the credit profile of the guarantor.

Negative factors - Negative pressure on rating could arise if the project progress is significantly delayed resulting in substantial time and cost overruns. Further, any deterioration in the guarantor's credit profile, or any weakening of linkages with the parent company HCPL could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - Hybrid Annuity Rating Approach - Explicit third-party support
Parent/Group support	The ratings are based on the strength of the corporate guarantee provided by HCPL for the rated bank facilities.
Consolidation/Standalone	The ratings are based on the standalone financials of HMP Buildcon.

About the company

Incorporated in May 2018, HMP Buildcon Private Limited is a special purpose vehicle formed by HCPL, Pawar Patkar Constructions Pvt. Ltd. and M.T. Patil Builders & Contractors Pvt. Ltd. to specifically undertake a road improvement project. The Government of Maharashtra, through PWD Maharashtra, develops the state highways under Maharashtra Road Improvement Programme (MRIP). In this context, Maharashtra State PWD and HMP Buildcon entered into Concession Agreement for two-laning of the two road sections under the work package NSK-54 in Maharashtra. The total concession period is 12 years including operation period of 10 years and construction period of two years.

Key financial indicators

Key financial indicators are not applicable as HMP Buildcon is a project-stage company.

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 Jun 30, 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 Term Loan	Long-term	60.00	27.53	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB(CE) (Negative)	[ICRA]BBB(CE) (Negative)	[ICRA]BBB(CE) (Stable)	
2	Non-fund Based Facilities	Long-term/Short-term	(12.84)	NA	[ICRA]BBB-(CE) (Negative)/[ICRA]A3(CE)	[ICRA]BBB(CE) (Negative)/[ICRA]A3+(CE)	[ICRA]BBB(CE) (Negative)/[ICRA]A3+(CE)	[ICRA]BBB(CE) (Stable)/[ICRA]A3+(CE)	

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Term Loan	Simple
Long-term/Short-term – Non-fund Based Facilities	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: 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 - Term Loan	FY2020	9.75%	FY2031	60.00	[ICRA]BBB-(CE) (Negative)
NA	Non-fund Based Facilities	NA	NA	NA	(12.84)	[ICRA]BBB-(CE) (Negative)/[ICRA]A3(CE)

Source: HMP Buildcon Private Limited

Annexure II: List of entities considered for consolidated analysis: Not applicable

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