July 16, 2024

Hariharan Foundations Private Limited: Long-term rating upgraded to [ICRA]BBB+(Stable) and Outlook revised to Stable; Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	19.70	15.90	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive
Long-term Fund-based –Overdraft	5.00	5.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive
Long-term Fund-based – Cash Credit	0.00	5.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive
Short -term Non-fund based –Bank guarantee	77.50	0.00	-
Short -term Non-fund based –Letter of credit	5.00	0.00	-
Long-term/ Short -term – Non-Fund based Bank guarantee	0.00	65.00	[ICRA]BBB +(Stable); upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive; [ICRA]A2 reaffirmed
Long-term/ Short -term – Non- Fund based Letter of credit	0.00	5.00	[ICRA]BBB +(Stable); upgraded from [ICRA]BBB (Positive) and outlook revised to Stable from Positive; [ICRA]A2 reaffirmed
Total	**107.20**	**95.90**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA, in its analysis, has consolidated the financials of Hariharan Foundations Private Limited (HFPL) and its 100% subsidiary, Hariharan Steels Private Limited (HSPL), owing to the strong linkages between the two entities and HFPL providing a corporate guarantee to the working capital facilities.

The rating upgrade for HFPL factors in the company's increased scale of operations and consequent operating leverage benefits, with consolidated revenues exceeding Rs. 350 crore in FY2024. This growth is expected to be sustained by healthy order additions and execution. As on May 31, 2024, the company has an order book of Rs. 426.8 crore for the civil construction segment (having an average execution period of 9-18 months) and Rs. 25.0 crore for the manufacturing of ready-mix concrete (RMC), which is 1.2 times its operating income (OI) in FY2024, providing adequate revenue visibility.

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 also consider the company's comfortable financial profile as reflected in the leverage with estimated TOL/TNW at 0.8 times as on March 31, 2024, and healthy interest coverage of 8.1 times for FY2024. With limited capex and expectations of a stable working capital cycle, its leverage and coverage metrics are likely to remain comfortable over the medium term.

The ratings are, however, constrained by high segment concentration risk, with the majority of orders from industrial buildings construction, and high geographical concentration risk, with the order book primarily concentrated in Andhra Pradesh, Tamil Nadu and Karnataka. Although HFPL has secured contracts from different end-user industries (warehouse, chemical, automobile, etc), it remains exposed to the cyclicality risks in private sector capex, as its order book is entirely from private sector entities. Hence, the timely receipt of new orders is critical to support its medium-term growth prospects. The operating margins are also exposed to stiff competition and volatility in raw material prices. An increase in raw material prices might adversely affect HFPL's operations due to the absence of price escalation clauses in some projects.

The outlook on the long-term rating reflects ICRA's opinion that HFPL's credit profile will be supported by its healthy order execution and timely receipt of payments from its reputed clientele.

Key rating drivers and their description

Credit strengths

Adequate orderbook position - The company has an adequate order book (OB) of Rs. 426.8 crore for the civil construction segment and Rs. 25.0 crore for manufacturing of RMC as on May 31, 2024, translating to an OB/OI of 1.2 times FY2024 revenues, providing adequate revenue visibility. Considering the execution period of 9-18 months, the order book provides adequate revenue visibility.

Comfortable financial risk profile - The company's financial risk profile is comfortable, as reflected in the leverage with estimated TOL/TNW of 0.8 times as on March 31, 2024, and a healthy interest cover of 8.1 times for FY2024. With limited capex plans and expectations of a stable working capital cycle, the leverage and coverage metrics are expected to remain comfortable in the medium term.

Long track record of operations and reputed clientele - The company has more than two decades of experience in the civil construction business, primarily catering to industrial construction. Its client profile includes reputed entities such as Deccan Fine Chemicals (India) Pvt Ltd, Bheema Fine Chemicals Pvt Ltd, MRF Limited, Indospace Group among others, mitigating the counterparty risk to an extent. Further, timely execution has helped in securing repeat orders from its customers, supporting its order book position.

Credit challenges

High segmental and geographical concentration risks - The company faces high segment concentration risks, with the majority of the order book coming from the industrial segment. Although the industrial segment contributed over 92% of its revenues, short-duration projects with better funding visibility at the customer's end have supported its revenues over the years. Further, the order book is limited to Tamil Nadu, Andhra Pradesh and Karnataka, resulting in high geographical concentration risks. The order book is vulnerable to cyclicality in project launches/expansion plans of customers in the industrial segment in these states.

Moderate operating margins and working capital intensity - The operating margins stood at a moderate 8.8% in FY2024 on account of limited value addition. The working capital intensity, marked by NWC/OI, is estimated to increase more than 25% in FY2024 from 17% in FY2023 due to an increase in receivables as on March 31, 2024. However, a large portion of its working capital is funded by interest-free advances from customers, resulting in lower dependence on debt.

Prospects linked to private sector capex - The company's contract activities are primarily in the industrial construction segment. While HFPL has secured contracts from various end-user industries (warehouses, chemical, automobile, pharma among others), it remains exposed to the cyclicality risks in private sector capex. Hence, the timely receipt of new orders is critical to support the growth prospects in the medium term.

Liquidity position: Adequate

HFPL's liquidity position is adequate, given the sufficient cushion in working capital limits. The average working capital limit utilisation remained low at 22% over the past 14 months ending May 2024. It has low repayment obligations of Rs. 5.0 crore and limited capex plans in FY2025, which can be comfortably serviced from its estimated cash flows from operations.

Rating sensitivities

Positive factors - ICRA can upgrade HFPL's ratings if there is a significant increase in order intake/execution along with earnings and a reduction in working capital intensity, resulting in an improvement in debt coverage metrics and liquidity position on a sustained basis.

Negative factors - Pressure on HFPL's ratings could arise if there is a significant decline in revenue, earnings, order book position or deterioration in the working capital cycle, adversely impacting its liquidity position on a sustained basis. Specific credit metrics for a downgrade include TOL/TNW increasing beyond 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
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

Incorporated in August 2000, HFPL is involved in civil construction, focusing on the construction of industrial facilities. The company also operates RMC batching plants in Tamil Nadu with an installed capacity of 1.25 lakh cubic meters per year.

In 2020, HFPL established a wholly-owned subsidiary, Hariharan Steel Private Limited (HSPL). HFPL manufactures pre-engineered solutions for buildings and structural steel fabrication. HSPL offers consultancy, design, fabrication, supply and installation of factories and buildings, with a manufacturing facility in Sri City, Andhra Pradesh.

Key financial indicators

HFPL (Consolidated)	FY2022(A)	FY2023(A)	FY2024(Estimate)
Operating income	203.2	342.0	357.0
PAT	10.3	17.0	19.0
OPBDIT/OI	8.1%	8.5%	9.1%
PAT/OI	5.1%	5.0%	5.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.2	0.8
Total debt/OPBDIT (times)	0.5	1.2	0.5
Interest coverage (times)	6.5	9.1	8.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

CRA	Status	Date of release
CRISIL	CRISIL B+ /Stable/ A4 (ISSUER NOT COOPERATING)	February 14, 2024
BRICKWORK	BWR B+/Stable/A4; Continues to be in ISSUER NOT COOPERATING category/Downgraded	April 19, 2024

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 16, 2024	May 18, 2023	-	Mar 03, 2022
1	Term loans	Long term	15.90	[ICRA]BBB+ (Stable)	[ICRA]BBB(Positive)	-	-
2	Fund-based – Overdraft	Long term	5.00	[ICRA]BBB+ (Stable)	[ICRA]BBB(Positive)	-	[ICRA]BBB(Stable)
3	Fund-based – Cash Credit	Long term	5.00	[ICRA]BBB+ (Stable)	-	-	-
4	Non-fund based – Bank guarantee	Short term	0.00	-	[ICRA]A2	-	[ICRA]A2
5	Non-fund based – Letter of credit	Short term	0.00	-	[ICRA]A2	-	[ICRA]A2
6	Non-fund based – Bank guarantee	Long term and short term	65.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-
7	Non-fund based – Letter of credit	Long term and short term	5.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund-based – Term loans	Simple
Long Term - Fund-based – Overdraft	Simple
Long Term - Fund-based – Cash Credit	Simple
Long term and short term - Non-fund based – Bank guarantee	Very simple
Long term and short term - 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	15.90	[ICRA]BBB+(Stable)
NA	Fund-based – Overdraft	-	-	-	5.00	[ICRA]BBB+(Stable)
NA	Fund-based – Cash Credit	-	-	-	5.00	[ICRA]BBB+(Stable)
NA	Non-fund based – Bank guarantee	-	-	-	65.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Non-fund based – Letter of credit	-	-	-	5.00	[ICRA]BBB+ (Stable)/ [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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About ICRA Limited:

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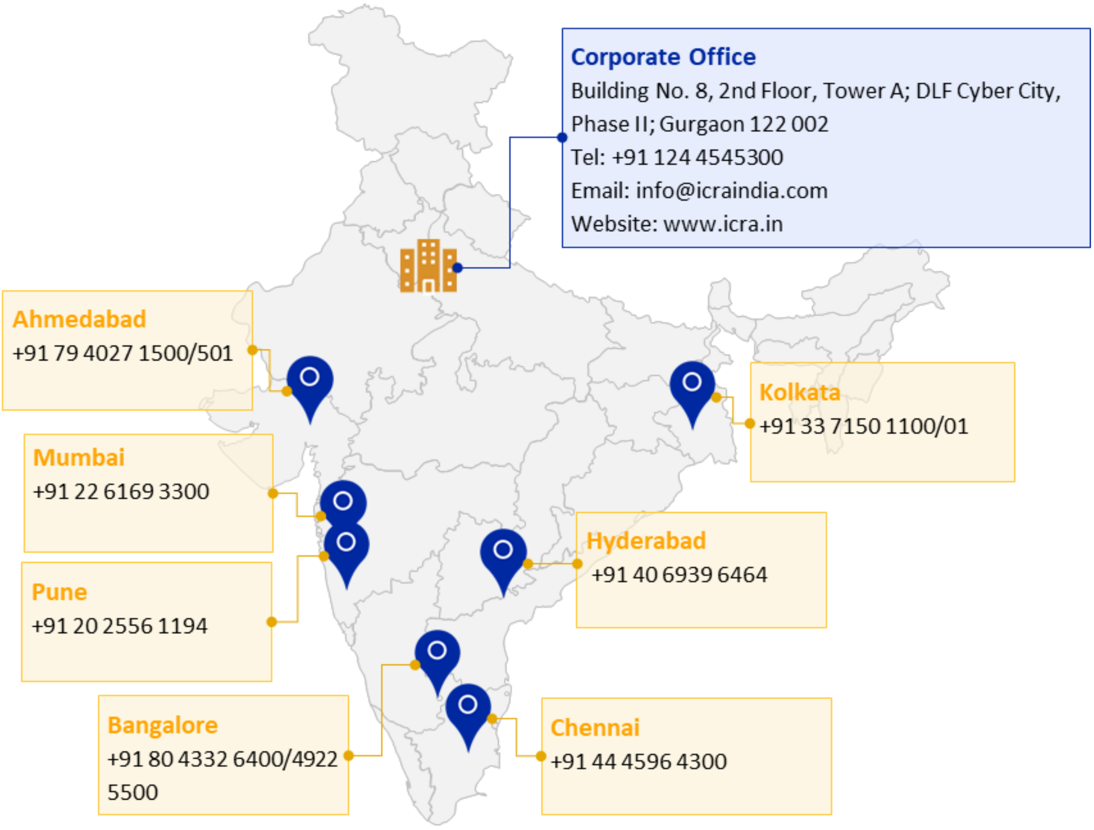

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