

## Hari Construction And Associates Private Limited

April 04, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	8.00	8.00	[ICRA]BBB (Stable); Reaffirmed
Fund Based – Term Loan	2.00	2.00	[ICRA]BBB (Stable); Reaffirmed
Non-Fund based – Bank Guarantee	40.00	40.00	[ICRA]BBB (Stable)/[ICRA]A3+; Reaffirmed
<b>Total</b>	<b>50.00</b>	<b>50.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings takes into consideration Hari Construction And Associates Private Limited's (HCAPL) healthy financial risk profile, characterised by a conservative capital structure and comfortable level of coverage indicators, supported by low debt level and steady improvement witnessed in operating profits and cash accruals. The ratings also factor in the healthy outstanding order book of around Rs. 496 crore (3.3 times of OI in FY2018) as on October 31, 2018, which provides adequate revenue visibility in the near to medium term. The ratings continue to favourably consider HCAPL's established track record of operations with demonstrated execution capabilities in the construction sector, supported by the experienced promoters and long relationship with reputed customers, which helps in securing repeat orders.

The ratings are, however, constrained by HCAPL's high geographical concentration, with Bihar accounting for around 88% of its order book as on October 31, 2018. The ratings also consider the execution risk faced by HCAPL as 70% of its outstanding order book is in the preliminary stages of completion (<25% of the contracts have been executed). Further, the ratings continue to factor in the intensely competitive and fragmented civil construction business, which, coupled with the tender-based contract awarding system, limits pricing flexibility. Moreover, HCAPL remains exposed to volatility in raw material prices, though presence of price-variation clause in most of the contracts mitigates such risk to an extent.

### Outlook: Stable

ICRA believes that HCAPL will continue to benefit from its established track record of operations and a healthy order book position. The outlook may be revised to Positive if substantial growth in revenue and profitability and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if delays in project execution, or if any major capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

### Key rating drivers

#### Credit strengths

**Established track record of operations, supported by a reputed customer base** – The company has been operating in the construction sector since 1999 and has an established track record in constructing railway tracks, platforms, railway sidings etc. The company has a long relationship with its customers, which helps in securing repeat orders. The clientele of the company is highly reputed, which consists of various government departments and public-sector undertakings, keeping counterparty risk at a low level.

**Steady increase in profits and cash accruals** – HCAPL’s operating margin has improved to 10.09% in FY2018 from 6.30% in FY2014, supported by addition of several higher-margin contracts in its order book. Its cash accruals from the business have also registered a consistent growth and stood at Rs. 10.74 crore in FY2018, against Rs. 3.87 crore in FY2014.

**Healthy financial risk profile** – HCAPL’s capital structure continued to remain conservative, as reflected by a gearing of 0.24 times as on March 31, 2018. Healthy profitability and low debt have continued to keep coverage indicators at a comfortable level.

**Comfortable order book position** – Healthy accretion of orders in 7M FY2019 supported HCAPL’s order book, which stood at around Rs. 496 crore as on October 31, 2018, indicating a book-to-bill ratio of 3.3 times of the turnover for FY2018. These orders are scheduled to be executed over the next few years, providing revenue visibility over the medium term, at least. Moreover, ICRA notes that the company has secured orders worth Rs. 143 crore towards the end of FY2019, which are expected to further improve HCAPL’s order book position.

## Credit challenges

**Exposed to execution risk** – HCAPL has an unexecuted order book of Rs. 496 crore as on October 31, 2018, out of which 70% are in the preliminary stages of execution (i.e. the work executed on these contracts is less than 25% of the total contract value) owing to delay in receipt of various clearances/approvals from the clients’ end. This keeps the company’s revenue and operations exposed to project execution risk.

**Intense competition, coupled with a tender-based contract awarding system, limits pricing flexibility** - The civil construction business is highly fragmented in nature and is characterised by intense competition among a large number of players. This, coupled with a tender-based contract awarding system, limits HCAPL’s pricing flexibility when bidding for new contracts.

**High geographical concentration risk** – HCAPL is primarily a Bihar-based player with around 88% of its outstanding order book derived from this state. Though the company is executing orders in Jharkhand and West Bengal as well, the proportion of the same in the order book remains low, exposing HCAPL to high geographical concentration risk.

**Exposed to risks of raw material shortages and volatility in input prices** – The company remains exposed to risks of raw material shortage and volatility in input prices, which could result in a delay in execution of work orders and adversely impact its top line and profitability. However, the presence of built-in price-escalation clauses in most of the contracts mitigates such risks to an extent.

## Liquidity position

The liquidity profile of the company continues to remain comfortable, supported by healthy fund flow from operations and availability of considerable surplus cash. HCAPL’s debt servicing obligations in the near to medium term are expected to remain low vis-à-vis net cash accruals from the business. The company’s utilisation of fund-based working capital facilities stood at around 78% in the 15 months ended October 2018. With HCAPL’s business expected to record a modest growth in the medium term, its FFO is estimated to remain at a comfortable level. However, more efficient management of non-fund based working capital limits remains a rating sensitivity, going forward.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

## About the company

Established in 1999 as a partnership firm, HCAPL was converted into a private limited company in 2009. It is involved in civil construction business. The company's core area of operations includes construction of railway tracks, platforms, railway siding, pre-stressed concrete structures, girder and pipe-line bridges for various government agencies and public-sector undertakings. HCAPL's current projects are primarily located in Bihar, Jharkhand and West Bengal.

## Key financial indicators (audited)

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	161.86	150.92
PAT (Rs. crore)	6.66	8.76
OPBDIT/ OI (%)	8.04%	10.09%
RoCE (%)	27.33%	25.96%
Total Debt/ TNW (times)	0.36	0.24
Total Debt/ OPBDIT (times)	1.04	0.74
Interest Coverage (times)	5.99	9.06

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore) March 31, 2018	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017	
						January 2018	November 2017	November 2016	
1	Cash Credit	Long Term	8.00	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)
2	Bank Guarantee	Long Term/ Short Term	40.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+ ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)/ [ICRA]A3+
3	Term Loan	Long Term	2.00	0.68	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	-	-

\*Issuer not cooperating, due to Non Submission of No Default Statement (NDS)

Source: HCAPL

### 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 [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	8.00	[ICRA]BBB (Stable)
NA	Bank Guarantee	-	-	-	40.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Term Loan	Dec-2016	-	Jun-2020	2.00	[ICRA]BBB (Stable)

Source: HCAPL

### Annexure-2: List of entities considered for consolidated analysis

Not applicable

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