

May 29, 2020

Harsh Constructions Pvt. Ltd.: Ratings reaffirmed; outlook on long-term rating revised to Negative

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+ (Negative); re-affirmed, outlook revised to Negative from Stable
Non-fund Based Limits	120.00	120.00	[ICRA]BBB+ (Negative)/ [ICRA]A2; re-affirmed, outlook revised to Negative from Stable
Total	165.00	165.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook on Harsh Constructions Pvt. Ltd.'s (HCPL) long-term rating to Negative factors in the disruption in construction activities with the commencement of the nationwide lockdown imposed to contain the Covid-19 pandemic from March 24, 2020 onwards. The disruption is likely to have a negative impact on the company's operating income (OI), profitability, and liquidity position in the near to medium term. HCPL's operations were stalled almost at all the sites since the lockdown, with partial commencement at a few project sites from May 2020 onwards. The ratio of projects awarded by the Central Government and the Government of Maharashtra in HCPL's orderbook stands at nearly 1:3. ICRA notes that some of its state awarded projects have adequate fund availability. Nevertheless, the recent announcement from the Government of Maharashtra that only 33% of capex outlay will be released in FY2021 could curtail the fund allocations for projects dependent on budgetary allocations and thereby slowing down the execution while also elongating the receivable cycle for construction contractors.

The reaffirmation of ratings for HCPL continue to take into account its healthy revenue visibility by virtue of the strong order book position of over Rs. 1,500 crore as on March 31, 2020, which is 2.5 times of the consolidated¹ OI of FY2020 (as per estimated financials). The ratings factor in its comfortable financial risk profile with healthy coverage metrics with TD/OPBITDA of 1.0 times as on March 31, 2020 (PY: 1.6 times) and interest coverage of 7 times in FY2020 (PY: 5 times). ICRA notes that the debt level was lower than estimated at the year-end, as some payments were realised. However, there was no construction activity in the last week of March 2020. The debt level is likely to increase once the operations scale up to normal levels with gradual easing of restrictions by state governments. The ratings 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 its moderate execution risk on account of nearly 75% of the outstanding orders being in the 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 in FY2020. With over 80% of the projects located in Maharashtra, the order-book is exposed to geographical concentration risk. Of the outstanding order-book, nearly one-third is under HCPL's joint venture (HPM Infra LLP) which is executing road projects including the three BOT (HAM) projects awarded by Maharashtra Public Works Department

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

(PWD). The company 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 experienced partners² to jointly execute these projects. ICRA notes that one HAM project has not been able to achieve financial closure thereby resulting in additional equity commitment (Rs. 33 crore) for HCPL. The improvement in TOL/TNW as on March 31, 2020 (as per estimated financials) to 1.6 times as on March 31, 2020 (2.5 times as on March 31, 2019) in ICRA's view is temporary given the disruption of operations in March and reduction of certain outside liabilities through realisation of payments. The consolidated debt levels are expected to peak by March 2022 once the BOT(HAM) projects draw down debt fully. The ratings continue to be constrained by the company's stretched liquidity position as reflected by high average fund-based utilisation against the sanctioned limit of 95% over the last 12 months period. Therefore, its ability 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 March 31, 2020, HCPL's consolidated outstanding order-book position was over Rs. 1500 crore (OB/OI of ~2.5 times based on the estimated billing for FY2020). These projects are expected to be executed over the next 24 to 36 months, providing medium-term revenue visibility at the consolidated level.

Comfortable financial risk profile with healthy coverage metrics – During FY2015-FY2020, HCPL's OI depicted a CAGR of 25% on a consolidated basis to Rs. 615 crore in FY2020 (as per estimated financials). In line with the improved absolute profit and low outstanding debt, the debt coverage indicators remained healthy as on March 31, 2020 (as per the estimated financials); TD/OPBITDA of 1.0 time (PY: 1.6 times) and interest coverage of 7.0 times (PY: 4.9 times) at the consolidated level.

Established track record of promoters in executing civil construction contracts for government and semi-government agencies – The promoter Mr. Vilas Birari has over three decades of experience 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 into joint venture with partners with good execution track record.

Credit challenges

Disruption in construction activities due to Covid-19 pandemic– Due to the Covid-19 pandemic, the company's OI, profitability, and liquidity position will remain impacted over the near to medium term. ICRA notes that nearly 75% of projects are in the nascent stages of execution (less than 25% complete as on December 31, 2019), and thus, HCPL remains exposed to execution risks. Despite the disruption in operations in the current fiscal and its anticipated impact on its cash flows, the financial risk profile is likely to remain comfortable.

High consolidated leverage– The improvement in TOL/TNW as on March 31, 2020 (as per estimated financials) to 1.6 times as on March 31, 2020 (2.5 times as on March 31, 2019) in ICRA's view is temporary given the disruption to operations in March and reduction of certain outside liabilities through realisation of payments. The consolidated debt levels are expected to peak by March 2022 once the BOT(HAM) projects draw down debt fully.

Increased equity commitment to BOT (HAM) projects – The company through its JVs (with PPCPL and MTPL) is executing three BOT(HAM) projects. One of the project has not been able to achieve financial closure thereby resulting in

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.

additional equity commitment for HCPL. The total equity requirement (including unsecured loans) for the HAM projects is Rs. 90 crore of which ~ Rs. 40 crore was infused till March 31, 2020 while the remaining would be infused in H1 FY2021.

Geographical concentration risks – At the consolidated level, over 70% of the outstanding order book is concentrated in Maharashtra and it is exposed to geographical concentration risks. With the highest number of Covid-19 cases in India being reported from Maharashtra, the company remains exposed to operational challenges arising from the pandemic situation. Recently, the Government of Maharashtra announced that only 33% of capex outlay will be released in FY2021. Such budget cuts could curtail the fund allocations and thereby slowdown the execution and elongate the receivable cycle for construction contractors.

Liquidity position: Stretched

HCPL's liquidity is **stretched**. With no major capex requirements, the debt repayment of ~Rs. 15 crore for FY2021 can be met through its cashflows from operations. The average fund based limit utilisation remained high at ~90% for the last 12 months ending in March 2020. The absence of financial closure for one of the HAM SPVs could exert pressure on its cashflows due to increased equity commitment.

Rating sensitivities

Positive triggers – Upgrade in the rating is unlikely in the near term. The outlook may be revised to Stable if the ramp up in execution normalises post the lockdown at a faster pace and/or the company demonstrates a significant improvement in its liquidity position with healthy cushion in FB limits. Specific credit metrics that may lead to an upgrade include consolidated TOL/TNW of below 1.5 times on a sustained basis.

Negative triggers – Negative pressure on the ratings could arise if significant budgetary cuts by HCPL's clients jeopardise the project execution resulting in lower than expected execution and/or elongation in the working capital cycle. Any delay in enhancement of working capital limits or sustained high levels of fund based limit utilisation will be a credit negative. Moreover, 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 a 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 (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					29-May-2020	14-Feb-2020	13-Feb-2019	
1	Fund-based Limits	Long-term	45.0	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Non-fund Based Limits	Long-term/ Short-term	120.0	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[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 www.icra.in

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+ (Negative)
NA	Non-fund Based Limits				120.00	[ICRA]BBB+ (Negative)/ [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; HCPL extended corporate guarantee
HMP Buildcon Private Limited	33.33%	Full Consolidation; HCPL extended corporate guarantee
HMP Builders Private Limited	33.33%	Full Consolidation; HCPL extended corporate guarantee
HMP Contractors Private Limited	33.33%	Full Consolidation; HCPL extended corporate guarantee

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