

May 29, 2020

HPM Infra LLP: Ratings re-affirmed; 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	20.0	20.0	[ICRA]BBB(CE)(Negative); re-affirmed, outlook revised to Negative from Stable
Non- Fund Based Limits	50.0	50.0	[ICRA]BBB(CE)(Negative)/[ICRA]A3+(CE); re-affirmed, outlook revised to Negative from Stable
Total	70.0	70.0	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement	[ICRA]BBB- / [ICRA]A3
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. 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

For the [ICRA]BBB(CE)(Negative)/ [ICRA]A3+(CE) ratings

The ratings for the Rs. 70.00 crore bank facilities of HPM Infra Llp (HPM Infra) are based on the strength of corporate guarantee provided by Harsh Constructions Pvt. Ltd. (HCPL, the guarantor rated at [ICRA]BBB+(Negative)/[ICRA]A2). The change in outlook on the long-term rating to Negative from Stable reflects ICRA's outlook change on the rating of the guarantor, HCPL.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by HCPL in favour of the said instrument. While the guarantee is legally enforceable and unconditional and covers the entire amount and tenor of the rated instrument, it does not have a well-defined invocation and payment mechanism. Please note that in the event that the Guarantor revokes or discontinues the guarantee, the captioned rating will not apply to any incremental exposure taken by the bank on the borrower, after the revocation or discontinuation notice is sent by the guarantor. In that event, the rating on the facility will have to be reviewed. Taking cognisance of the above, ICRA has assigned ratings of [ICRA]BBB(CE)(Negative)/ [ICRA]A3+(CE) to the said instruments against the unsupported rating of [ICRA]BBB-/[ICRA]A3. In case the guarantor's rating undergoes a change in future, the same would reflect in the rating of the aforesaid instrument. The ratings of this facility may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business links between the guarantor and the rated entity, or there is a change in the reputation sensitivity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » The guarantors would be the principal debtors jointly with the borrower and accordingly, the guarantors shall not be entitled to and also hereby waive all the rights conferred on the guarantors under sections 131, 133, 134, 135, 139,140 and 141 of the Indian Contract Act, 1872

- » Overall, the Guarantee is clean and covers the key provisions
- » As normally seen with term loans, no payment mechanism is included as part of the guarantee deed.

Key rating drivers and their description

Credit strengths

Corporate guarantee from HCPL: The rating takes support from the profile of the sponsor – HCPL (rated at [ICRA]BBB+(Negative)/[ICRA]A2). The rating for the bank facilities of Rs. 70.0 crore is based on the strength of the corporate guarantee provided by HCPL.

[Rating rationale of HCPL](#)

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 Trigger: If there is any improvement in the credit profile of the guarantor.

Negative Trigger: Any deterioration in the credit profile of the guarantor or any weakening of linkages with the parent company HCPL or in case of revocation of corporate guarantee.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: HCPL The assigned ratings are based on corporate guarantee extended by HPM Infra's parent company – HCPL
Consolidation/Standalone	Standalone.

About the company

Incorporated in May 2017, HPM is an engineering procurement construction (EPC) contractor based in Nashik, Maharashtra and undertakes civil construction of roads. It is a limited liability partnership firm, promoted by three companies viz., Harsh Construction Pvt. Ltd.(HCPL), Pawar Patkar Construction Pvt. Ltd.(PPCPL) and M T Patil Builders & Contractors Pvt. Ltd. (MTPL). At present, Mr. Sanjay Kalu Patkar, Mr. Vilas Kedu Birari and Mr. Avinash Madhav Patil are the partners of the firm.

About the Guarantor:

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, HPM Infra Llp)

	FY2018	FY2019	7M FY2020*
Operating Income (Rs. Crore)	18.1	130.6	117.6
PAT (Rs. Crore)	0.9	9.0	9.9
OPBDIT/OI (%)	44.0%	21.1%	22.4%
RoCE (%)	16.2%	31.6%	57.8%
Total Outside Liabilities/Tangible Net Worth (times)	19.2	9.3	8.4
Total Debt/OPBDIT (times)	7.6	2.2	0.9
Interest Coverage (times)	2.1	3.9	5.6
DSCR	2.0	1.8	4.4

Source: HPM Infra Llp; *Provisional financials

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	15-Feb-2019	18-Jan-2018
1	Fund-based Limits	Long-term	20.00	1.3	[ICRA]BBB (CE) (Negative)	[ICRA]BBB (CE) (Stable)	[ICRA]BBB+ (SO) (Stable)	
2	Non-fund Based Limits	Long-term/Short-term	50.00	-	[ICRA]BBB (CE) (Negative) / [ICRA]A3+(CE)	[ICRA]BBB (CE) (Stable) / [ICRA]A3+(CE)	[ICRA]BBB+ (SO) (Stable) / [ICRA]A2(SO)	
3	Unallocated Limits	Long-term/Short-term	-	-				[ICRA]BB- (Stable) / [ICRA]A4

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				20.00	[ICRA]BBB (CE) (Negative)
NA	Non-fund Based Limits				50.00	[ICRA]BBB (CE) (Negative) /[ICRA]A3+(CE)

Source: HPM Infra LLP

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Analyst Contacts

Shubham Jain

+91 124 4545 306

shubhamj@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Sandhya Negi

+91 20 6606 9925

sandhya.negi@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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