

H.G Infra Engineering Limited

December 15, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Cash Credit	69.50	92.00	[ICRA]A- (Positive); Reaffirmed
Fund based- Cash Credit (Proposed)	22.50	18.00	[ICRA]A- (Positive); Reaffirmed
Non-fund based-Bank Guarantee	275.50	440.50	[ICRA]A2+;Reaffirmed
Non-fund based-Proposed Bank Guarantee	190.00	310.00	[ICRA]A2+;Reaffirmed
Total	557.50	860.50	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) on the Rs 110.00 crore long term fund based facility of H.G Infra Engineering Limited (HGEIL). The outlook on the long-term rating is 'Positive'. ICRA has also reaffirmed the short- term rating of [ICRA]A2+ (pronounced ICRA A two plus) on the Rs 750.50 crore non-fund based facility of HGEIL.

Rationale

The rating and outlook reaffirmation takes into account the healthy growth in operating income in FY2017 (36% YoY growth) and rapid scaling up of the pending order book position to over Rs. 3660 crore as on October 31, 2017 (3.77 times FY2017 OI) providing healthy revenue visibility over the next two years. The ratings also factor in an improvement in profitability from ~11% in FY2016 to ~15% in H1FY2018 in line with increased utilization of owned fleet for ongoing projects. The ratings continue to draw comfort from the promoters' long track record of over four decades in the civil construction business, coupled with the company's status of "AA" class contractor with the State Government of Rajasthan and "SS" registration with Military Engineers Services. The ratings are also supported by the diversified client portfolio consisting of private customers as well as government and semi-government agencies such as the National Highway Authority of India (NHAI), the Rajasthan State Road Development Corporation (RSRDC), Roads and Building (R&B) divisions, the municipal corporations of various cities, and irrigation departments, among others.

The ratings are, however, constrained by the weaker than projected debt protection metrics resulting from higher overall debt levels at ~Rs. 351 crore as on September 30, 2017 due to significant scaling up of owned fleet; indicated by an increase in leveraging (Total Debt/OPBDITA at 2.12 times as compared to 1.70 times as on March 31, 2017), moderation in interest coverage (from 6.22 times to 5.70 times) and lower projected average DSCR over the next three years (~1.26-1.78 times). ICRA, however, has considered the management's stated stance of ensuring significant de-leveraging post utilisation of the proceeds of the planned Initial Public Offering (IPO) in Q4FY2018 towards reduction in debt levels. ICRA has maintained the 'Positive' outlook factoring in the successful completion of the IPO and shall re-assess the ratings post Q4FY2018 to factor in the status of the fund-raising and its impact on the financial risk profile. Further, the ratings factor in the execution risk associated with the recently awarded projects that account for >50% of the existing order book. ICRA also takes note of the high competitive intensity in the civil construction space as well as the project order based nature of the business, with the risk of reduction in workflow in case of any prolonged down-cycle in the road construction sector, which remains the major revenue contributor for the company. ICRA also takes into account the

vulnerability of its profitability to fluctuations in input prices in some projects that do not have the price escalation clause; and the criticality of timely completion and delivery as per contract terms in order to avoid LD claims. ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 260 crore as of March 2017) due to submission of bid-bond, performance and other guarantees; high reliance on mobilisation advances and security deposits from sub-contractors to fund the working capital requirements and any slowdown in such receipts may increase HGIEPL's reliance on bank borrowings.

Outlook: Positive

ICRA believes that going forward, HGIEL's sales will show healthy growth over the next two years in line with a strong order book position and expansion of execution capabilities. The outlook may be revised to 'Stable' if plans to raise equity capital via IPO are delayed substantially and the company is unable to achieve the targeted de-leveraging. The outlook may be revised to 'Negative' if there is a weakening of the financial risk profile due to slow down in pace of execution, large Liquidated Damages (LD) claims or significant increase in the overall receivables position of the company.

Key rating drivers

Credit strengths

Long track record of promoters coupled with status of "AA" class contractor - The promoters have an extensive experience in the civil construction segment spanning more than four decades. HGIEPL's long track record, adequate infrastructure (equipment, skilled manpower) coupled with "AA" class certification from the State Government of Rajasthan and "SS" class certification from Military Engineers Services ensure that it meets the financial and technical criteria of most of the tenders floated.

Strong order book position- Execution of progressively large orders over time has made HGEIL eligible to bid for higher value orders by meeting the stipulated technical and financial eligibility criteria. Accordingly, HGEIL has boosted its order book position over the past 12-15 months, with an unexecuted position of over ~Rs. 3660 crore as on October 31, 2017. The ratio of current pending order book to operating income of FY2017 was healthy at ~3.77 times, indicating healthy revenue visibility for the next 2 years

Healthy growth and profitability- Scaling up of order book and timely execution has helped in boosting revenue, with operating income registering a growth of 116% from Rs. 330 crore in FY2015 to Rs. 712 crore in FY2016 and 36% to Rs. 970 crore in FY2017. Overall profitability has improved from ~11% in FY2016 to ~15% in H1FY2018, supported by lower subcontracting expenses in line with expansion of owned fleet.

Reputed and diversified customer profile- HGIEPL's customer base includes government & semi-government bodies and private entities like NHAI, RSRDC, Military Engineers Services, Agra Development Authority, Gammon India Limited, IRB Infrastructure Developers Limited, Public Works Departments, R&B divisions, and State Road Project Divisions of various states like Rajasthan, Uttar Pradesh, Haryana and Maharashtra. Hence the counterparty credit risk remains relatively low for HGIEPL.

Credit weaknesses

Debt funded expansion of fleet- In order to improve profitability and execution capabilities by reducing dependence on subcontractors, the company under took large debt funded capex in FY2017 amounting to ~Rs.100 crore and ~Rs.150 crore in H1FY2018. This has led to an increase in overall debt levels from Rs. 123 crore as on March 31, 2016 to ~Rs.351 crore as on September 30, 2017, resulting in an increase in gearing (from 0.97 times to 1.7 times), increase in debt to profit (from 1.57 times to 2.12 times), FFO/Total Debt turning negative (from 0.20 times to (0.02) times) and lower return metrics (RoCE moderating from 30% to 26%), although despite moderation, coverage and return indicators continue to remain at comfortable levels. Further, the company plans to raise Rs. 300 crore via IPO during Q4FY2018. If execute successfully, a significant part of the proceeds shall be utilized towards reduction of debt levels. ICRA expects that this should also result in an improvement in projected debt protection metrics.

Moderate execution risk – The execution risk for HGEIL remains at moderate levels, particularly for the newly awarded projects which account for >50% of the current order book, wherein securing all the necessary approvals and completion of work in timely manner will be key to achieve the growth and in the near to medium term

Intense competition and vulnerability to price fluctuation- The growth prospects remain constrained by intense competition in the civil-construction space and the project order-based nature of the business, with the risk of reduction in work flow in case of any prolonged down-cycle in the road construction sector, which remains the major revenue contributor for the company. Besides this, the overall profitability remains vulnerable to fluctuations in input prices, although the presence of price-escalation clause in most of the contracts for major components mitigates the above risks to a large extent.

High off-balance sheet exposure- ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 260 crore as on March 2017) due to submission of bid-bond, performance and other guarantees, high reliance on mobilisation advances and security deposits from sub-contractors to fund the working-capital requirements and any slowdown in such receipts may increase HGEIL's reliance on bank borrowings.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

About the company:

H.G. Infra Engineering Private Limited (HGIEPL) was incorporated in 2003 by Mr. Hodal Singh Choudhary, Mr. Girish Pal Choudhary, Mr. Vijendra Singh Choudhary and Mr. Harendra Singh Choudhary in Jodhpur, Rajasthan. HGIEPL is primarily engaged in infrastructure development and construction of roads and highways mainly across Rajasthan, Uttar Pradesh, Haryana and Maharashtra. Over the past few years, the company has also diversified into the construction of water distribution projects. During FY2018, the company converted from a Private Limited company to a Public Limited company and has filed its Draft Red Herring Prospectus with SEBI in September 2017 with plans to raise Rs. 300 crore.

In FY2017, the company reported a net profit of Rs. 49.3 crore on an operating income of Rs. 970.3 crore, as compared to a net profit of Rs. 30.2 crore on an operating income of Rs. 712.4 crore in the previous year. During H1FY2018, on a provisional basis the company reported a net profit of Rs. 30.2 crore on an operating income of Rs. 561.4 crore.

Key Financial Indicators (Audited)

	FY2016	FY2017	H1FY2018*
Operating Income (Rs. crore)	712.43	970.29	561.42
PAT (Rs. crore)	30.18	49.30	30.18
OPBDIT/ OI (%)	10.96%	12.35%	14.75%
RoCE (%)	30.27%	31.42%	25.95%
Total Debt/ TNW (times)	0.97	1.16	1.70
Total Debt/ OPBDIT (times)	1.57	1.70	2.12
Interest coverage (times)	4.88	6.22	5.70
NWC/ OI (%)	13%	15%	19%

*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015	Date & Rating in FY2015
1	Cash Credit	92.00	-	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-
2	Proposed Cash Credit	18.00	-	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-
3	Letter of Credit & Bank Guarantee	440.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	Proposed Letter of Credit & Bank Guarantee	310.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	-	92.00	[ICRA]A- (Positive)
NA	Proposed Cash Credit	NA	NA	-	18.00	[ICRA]A- (Positive)
NA	Letter of Credit & Bank Guarantee	NA	NA	-	440.50	[ICRA]A2+
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	-	310.00	[ICRA]A2+

Source: H.G Infra Engineering Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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