Harsh Constructions Pvt. Ltd.

February 13, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	45.00	[ICRA]BBB+ (Stable); assigned
Non-Fund based limits	105.00	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Total	**150.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Harsh Constructions Pvt. Ltd. (HCPL) reflects the medium-term revenue visibility by virtue of the strong order-book position of Rs. 1183 crore as on January 15, 2018 which is 3.9 times the consolidated[1] operating income (OI) of FY2018. The company's OI grew at a CAGR of 15% to Rs. 302.4 crore in FY2018. The assigned ratings also factor in the comfortable financial risk profile with moderate leverage (TD/ TNW of 0.7 time as on March 31, 2018) and healthy coverage metrics (TD/OPBITDA of 1.3 times as on March 31, 2018 and interest coverage of 6.1 times in FY2018). ICRA notes that HCPL intends to execute higher value projects in the future instead of smaller projects in different locations. This strategy would enable better utilisation of existing resources (including equipment) and minimise capex requirements over the medium term. The assigned ratings also 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 the high segment concentration risk as HCPL is solely focused on building construction segment. ICRA notes that the risk is partly offset by HCPL's moderately diversified geographical and customer mix. The ratings are also constrained by the moderate execution risk as 60% of the orders are in the nascent stages of execution (less than 10% complete); however, ICRA takes comfort from resource mobilisation and start of construction for majority of these projects. ICRA also takes note of the equity commitments towards the three new build-operate-transfer (BOT) projects under hybrid annuity mode awarded by PWD, Maharshatra. These projects were won by the SPVs formed by HCPL along with Pawar Patkar Construction Pvt. Ltd.(PPCPL) and MT Patil Builders Contractors Pvt. Ltd. (MTPL). HCPL's share of equity is estimated at Rs. 16.7 crore over FY2019 to FY2021. Further, it has provided corporate guarantee[2] for HPM Infra LLP (rated [ICRA]BBB+(SO) (Stable)/[ICRA]A2(SO)) and will also be providing corporate guarantees for the HAM SPVs. For arriving at the ratings, ICRA has used limited consolidation approach, under which the proposed equity investments and operational shortfall (if any) pertaining to HAM SPVs has been considered; the projected cash accruals of HCPL are expected to be sufficient to meet investment requirements in its JVs/SPVs as well as any operational shortfalls thereof comfortably. The ratings would remain sensitive to higher-than-expected support requirement towards any of the JVs, which may impact the company's consolidated credit profile.

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[1] *HCPL(consolidated) includes standalone and its JVs (equity method; refer Annexure-2). In the current fiscal, HCPL has formed special purpose vehicles (SPVs) with Pawar Patkar Construction Pvt. Ltd.(PPCPL) and MT Patil Builders Contractors Pvt. Ltd. (MTPL) with each partner holding 33.34% of the shares. The equity contribution for these SPVs is expected to be Rs. 16.7 crore over FY2019-FY2021.*

[2] *The corporate guarantees given by HCPL, PPCPL and MTPL with the obligations of the guarantors being joint and several.*

Outlook: Stable

The Stable outlook on the long-term rating reflects ICRA's belief that HCPL would execute the outstanding order-book at a healthy pace while gaining new orders to maintain the growth momentum. The outlook may be revised to Positive if the gross billing is significantly higher than anticipated, leading to improvement in the leverage metrics (TOL/TNW). The outlook may be revised to Negative in case billing is lower than anticipated or elongation in working capital cycle or significant cost over run for the HAM projects results in higher than anticipated equity support from HCPL.

Key rating drivers

Credit strengths

Strong order book position provides medium term revenue visibility- As on January 15, 2019, HCPL's outstanding order-book position was Rs. 1183 crore (OB/OI of 3.9 times based on FY2018). These projects are expected to be executed over the next 24 to 36 months, providing medium-term revenue visibility for HCPL.

Comfortable financial risk profile with moderate leverage and healthy coverage metrics – The company reported TD/ TNW of 0.7 time as on March 31, 2018 and TD/OPBITDA of 1.3 times and interest coverage of 6.1 times in FY2018.

Established track record of the promoters in executing civil construction contracts for government and semi-government agencies- The promoter Mr. Vilas Birari has a rich experience of over three decades in the civil construction business and the company is registered as Class-1A Contractor with PWD Maharashtra.

Credit challenges

High segment concentration with presence limited to building construction segment –ICRA notes that within the building construction segment, the company has moderately diversified customer as well as geographical mix. The outstanding orders are spread across four states viz. Maharashtra, Karnataka, Goa and Madhya Pradesh. The company has over years strengthened its presence in the building construction segment for government and semi-government agencies.

Moderate execution risk - With 60% of projects in nascent stages of execution (less than 10% complete as of Jan 15, 2019), the company remains exposed to risk associated with delays in these projects. However, the risk is mitigated as nearly half of these pertain to a single project where the necessary approvals are in place and work has been initiated. Also, the complexity of work for majority of these projects is low, further mitigating the risk.

Equity commitment to BOT (HAM) projects - HCPL through its JVs (with PPCPL and MTPL) has won three new BOT projects under hybrid annuity mode, where its equity commitment is estimated at Rs. 16.7 crore over FY2019-FY2021. The projected cash accruals of HCPL are expected to be sufficient to meet investment requirements comfortably. The ratings would remain sensitive to higher than expected support requirement towards any of the JVs which may impact the company's consolidated credit profile.

Liquidity Position:

With capex requirements at the consolidated level to remain below Rs. 10 crore annually over the medium term, the free cashflows from operations (FFO) are expected to be at a comfortable level. FFO is estimated to be sufficient to fund scheduled debt repayments as well as incremental equity requirements (for the HAM projects). The ratings assigned also take comfort from the approximately Rs. 5-crore unutilised working capital bank limits at a standalone level (as on December 31, 2018).

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Construction Entities](#)
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HCPL. As on March 31, 2018, the company had three JVs and in the current fiscal it has formed three SPVs where in limited consolidation has been done for arriving at the ratings (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 'Class-1A Contractor' with PWD Maharashtra.

Key financial indicators (audited)- Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	239.3	302.4
PAT (Rs. crore)	13.9	17.8
OPBDIT/OI (%)	11.2%	12.0%
RoCE (%)		39.4%
Total Debt/TNW (times)	0.1	0.7
Total Debt/OPBDIT (times)	0.2	1.3
Interest Coverage (times)	6.9	6.1

Source: HCPL

Status of non-cooperation with previous CRA:

Not applicable.

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					February 2019	- -	-	-
1	Fund-based limits	Long Term	45.00	-	[ICRA]BBB+ (Stable)	- -	-	-
2	Non-Fund based limits	Long-term	105.00	-	[ICRA]BBB+ (Stable) /[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	Fund-based limits				45.00	[ICRA]BBB+ (Stable)
NA	Non-Fund based limits				105.00	[ICRA]BBB+ (Stable) /[ICRA]A2

Source: HCPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PEL-PPCPL-HCPL Joint Venture	23.0%	Equity Method
HPM Infra LLP	33.3%	Equity Method
PH Infra JV	49.0%	Equity Method
HMP Buildcon LLP	33.3%	Limited consolidation
HMP Builders LLP	33.3%	Limited consolidation
HMP Contractors LLP	33.3%	Limited consolidation

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About ICRA Limited:

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