

HEC Infra Projects Limited

October 13, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.17 (Reduced from 15.83)	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	22.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	34.17 (Rs. Thirty-Four Crore and Seventeen Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HEC Infra Projects Limited (HEC) continue to constrain due to its modest scale of operations with moderation in profitability amidst COVID19 pandemic disruption, weak debt coverage indicators, moderate but slow-moving order book with geographical concentration and further elongation in operating cycle during FY21 (FY refers to April 1 to March 31). The ratings are further constrained on account of HEC's presence in competitive and tender driven industry, susceptibility of its income to economic cycles and dependence on investment in infrastructure segment.

The ratings, however, continue to derive strength from HEC's experienced and technically qualified promoters who are supporting the business through infusion of unsecured loans and its established track record of operation in EPC (Engineering, Procurement and Construction) projects. The ratings also factor HEC's reputed clientele base and moderate capital structure.

Outlook: Negative

The revision in outlook on the long-term rating of the bank facilities of HEC from 'Stable' to 'Negative' is on account of deterioration in the financial profile of the company during FY21, which is expected to remain under pressure going forward along-with significant funds being deployed in receivables and deposits putting pressure on liquidity position. The outlook may be revised to 'Stable' if the HEC is able to improve scale of operations and profitability while shortening its working capital cycle thereby improving its liquidity position.

Rating Sensitivities

Positive Factors

- Increasing scale of operations with Total Operating Income (TOI) of more than Rs.125 crore along with improvement in PBILDT margin to more than 10% on a sustained basis through timely execution of orders
- Improvement in debt coverage indicator marked by Interest coverage above 2x and Total Debt/Gross Cash Accruals (TD/GCA) below 5x on a sustained basis
- Significant contraction in gross operating cycle (receivables plus inventory) below 180 days

Negative Factors

- Further contraction in TOI along with decline in PBILDT margin falling below 7%
- Deterioration in debt coverage indicator marked by Interest coverage below 1.25 times

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with moderation in profitability and weak debt coverage indicators

The scale of operations of the company have remained modest with non execution of orders as site were not available amidst COVID19 pandemic disruptions. The company had reported Total Operating Income (TOI) of Rs.38.27 crore in FY21 which remained largely in line with PY (Rs.40.09 crore) as envisaged. The PBILDT margin had moderated in FY21 to 7.87% from 9.96% in FY20, primarily on account of increase in input costs, higher labour costs and cost incurred on contract which got cancelled. However, company has taken various cost control measures including optimizing labor costs to maintain its moderate profitability.

Further, during 2nd wave of COVID19, it has faced supply side issues for certain materials like metal sheets, fabricated metal, switch board sheet amidst oxygen shortage related issues in Q1FY22 and business operations were impacted for almost 2 months (April 2021 – May 2021).

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

HEC's debt coverage indicators deteriorated in FY21 and remained weak marked by high total debt/GCA of 57.60 times (FY20: 43.69x) and modest Interest coverage of 1.15x (FY20: 1.33x) due to decline in HEC's profitability along with high debt levels.

Moderate but slow-moving order book with geographical concentration

HEC has outstanding order book of Rs.121.58 crore as on August 31, 2021 out of which orders amounting to Rs.13.20 crore shows no progress. Order book to sales ratio of 3.18 times providing medium to long term revenue stability. Majority of contracts in HEC's order book is in the vicinity of Gujarat which exposes the company to risk associated with geographical concentration of revenue. However, Gujarat offers a relatively conducive and stable environment for construction companies, witnesses' high level of competition due to large number of players willing to take up projects located in this region. Execution of projects within stipulated timeframe remains crucial from the credit perspective.

Elongation of operating cycle and high level of deposits

HEC operations had seen declining trend in last two years ended FY21 while its working capital requirements remained high leading to continuous elongation in working capital cycle from 83 days in FY19 to 140 days in FY20 and further to 210 days during FY21. However, management has articulated that going forward with completion of orders which are into final stages and billing in FY22, liquidity is expected to improve which is a key rating monitorable.

For HEC, billing process is two layered. Primary inspection is done by HEC and proforma invoice is submitted to client and later on client counter check the same for final approval of invoice. Due to lockdown/ceiling limit of employees, adequate staff is not available at both the levels results in delayed clearance for final invoicing of work already executed and pilling up of inventory. As on March 31, 2021 out of total debtors of Rs.32.93 crore, Rs.19.07 crore (58%) are outstanding for more than 6 months. Further, company has majority of the amount in the form of deposits with various government department amounting Rs.19.25 crore leading to stretched liquidity.

Competitive industry and tender driven nature of business

High level of safety, security and regulatory requirements are the key for entire EPC business and requires specialized skills to be developed along with a demonstrated track record. Contracts are awarded on tender basis which requires company to meet the bidding criteria qualification which also acts as a very strong entry barrier. However, due to presence of few large players like Larsen & Toubro Limited, Sadbhav Engineering Limited, Patel Engineering Limited etc. in this business specifically in Gujarat, there is stiff competition at the time of bidding of contract, more so for smaller players like HEC.

Susceptibility of its income to economic cycles and dependence on investment in infrastructure segment

Being an EPC contractor, HEC's fortune is linked with the overall economic development and spending on the infrastructure segment by both public as well as private sector. Further, the industry is fragmented and is characterized by many small players leading to high level of competition within the industry.

Liquidity: Stretched

HEC has stretched liquidity position marked by high utilization of working capital limits and significant elongation of its gross current asset days to 464 days in FY21. Further, HEC has moderate term loan installment repayment obligations of around Rs.1.44 crore for FY22 against which low cash accruals are expected necessitating support requirement from promoters. Average fund based and non-fund based working capital utilization for past twelve months ended on August, 2021 remained high at 96% and 73% respectively.

Current ratio remained moderate at 2.05 times as on March 31, 2021. During FY21, company has reported cashflow from operations of Rs.1.48 crore (PY – outflow of Rs.4.31 crore). As on March 31, 2021 cash and bank balance stood at Rs.4.08 crore, out of which Rs.3.93 crore was lien marked FDs.

Key Rating Strengths

Experienced and technically qualified promoters and continuous support in form of unsecured loans

Mr. Guarang Shah (Managing Director) is a mechanical engineer with more than three decades of experience in executing various projects of Electrical, Mechanical, Solar, Water Distribution etc for various companies and corporations. He is having a vast experience in designing in Switchgears, Power Distribution Network, Power Transmission, Water Distribution, Solar Power Plants and ELV Products. Mrs. Rupal Shah is executive director in the company and looks after accounting, finance and administration. Mr. Rahul Shah (Son of Mr. Gaurang Shah) looks after the operations of the company as a project manager. HEC also has team of engineers, project managers and qualified professional having long experience in the industry, assist the top management in executing projects.

Shah family has also promoted other business concerns namely Swati Switchgears (India) Private Limited, Highvolt Power and Control Systems Private Limited and Brainscape Solutions Private Limited which are in the business of manufacturing of high voltage & low voltage panels & automation systems which are used in electro-mechanical & power distribution

work. Promoters are continuously infusing funds in the form of unsecured loans viz. Rs. 1.27 crore during FY21 and Rs.1.39 crore in Q1FY22 to support business operations.

Established track record of operation in EPC projects

HEC has an established track record of more than three decades as an EPC contractor in the field of Electrical, Electro-Mechanical, Civil and Instrumentation work. HEC offers integrated solutions and end-to-end services ranging from design, supply, installation and commissioning of overhead transmission lines, substations, underground cable lying, Switchyard, Water pumping stations, Lighting systems, Industrial and commercial electrification, solar PV plants, battery energy storage system and mini / micro grid Solar projects.

The Company has a wide experience for execution of projects on Turnkey basis for Switchyard up to 220 KV, Overhead transmission line up to 220 KV, and underground cable laying up to 66 KV, Air insulated substations up to 220KV and SCADA systems. Further, HEC is registered 'Class A' EPC contractor with Roads and Building Department of Government of Gujarat and Class- 1 registered contractor with Central Public Works Department (CPWD) which makes it eligible to undertake all types of electrical turnkey projects. HEC has also been awarded contractor license from GETCO.

Reputed clientele

HEC has long track record in executing Electro-Mechanical projects for reputed clientele across various industries such as Engineering and allied products, power transmission, Textiles, Steel & Non-ferrous metals, Petrochemicals etc. In the past HEC has executed various projects for GETCO, Gujarat Gas Ltd., HPCL, J Kumar Infra Projects Ltd and Airport Authority of India amongst others.

In terms of awarding authority body, proportion of direct contract from the nodal agencies of government was 69% of the outstanding order book as on August 31, 2021.

Moderate capital structure

HEC's capital structure remained moderate marked by overall gearing of 1.08x as on March 31, 2021 which was largely in line with March 31, 2020 (1.18x). Total debt increased mainly on account of increase in unsecured loan by promoter and COVID loans availed by the company to meet its incremental working capital requirements.

Analytical approach: Standalone

Applicable Criteria:

[Criteria on Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios – Non financial Sector](#)

[Methodology for Service Sector Companies](#)

[Methodology for Construction Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the Company

Incorporated as a partnership firm in 1986, Ahmedabad-based HEC (CIN - L45200GJ2005PLC046870) converted itself into a public limited company in October 2014. Subsequently, in March 2016, HEC's equity shares were listed on ITP (Institutional Trading Platform) NSE EMERGE platform of NSE.

HEC is an EPC contractor and provides SITC services to multiple government and private entities. HEC is registered 'Class A' EPC contractor with Roads and Building Department of Government of Gujarat and a Class-1 registered contractor with Central Public Works Department (CPWD). It has also been awarded contractor license from GETCO.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	40.09	38.27
PBILDT	3.99	3.01
PAT	0.54	0.31
Overall gearing (times)	1.18	1.08
Interest coverage (times)	1.33	1.15

A-Audited

Status of non-cooperation with previous Not Applicable

Any other information: Not Applicable

Rating History for last three years: Annexure-2

Covenants of the rated instrument / facilities: Annexure-3

Complexity level of various instruments rated for this Company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	11.50	CARE BB+; Negative
Non-fund-based - ST-BG/LC		-	-	-	22.00	CARE A4+
Term Loan-Long Term		-	-	April, 2025	0.67	CARE BB+; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings		Rating history				
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	11.50	CARE BB+; Negative	-	1)CARE BB+; Stable (05-Oct-20)2) CARE BB+; Stable (04-Aug-20)	1)CARE BBB-; Stable (01-Oct-19) 2) CARE BBB-; Stable (10-Jun-19)	1)CARE BBB; Stable (28-Sep-18)
2	Non-fund-based - ST-BG/LC	ST	22.00	CARE A4+	-	1)CARE A4+ (05-Oct-20) 2) CARE A4+ (04-Aug-20)	1)CARE A3 (01-Oct-19)2) CARE A3 (10-Jun-19)	1)CARE A3 (28-Sep-18)
3	Term Loan-Long Term	LT	0.67	CARE BB+; Negative	-	1)CARE BB+; Stable (05-Oct-20) 2) CARE BB+; Stable (04-Aug-20)	1)CARE BBB-; Stable (01-Oct-19) 2) CARE BBB-; Stable (10-Jun-19)	1)CARE BBB; Stable (28-Sep-18)

* Long Term / Short Term

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities - NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications

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About CARE Ratings:

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