

HEC Infra Projects Limited

August 16, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.01 (Reduced from 12.17)	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Reaffirmed
Short Term Bank Facilities	22.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	34.01 (₹ Thirty-Four Crore and One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HEC Infra Projects Limited (HEC) continue to remain constrained due to its modest scale of operations and moderate profitability which continue to remain adversely affected amidst Covid 19 pandemic disruption during FY22 (FY refers to April 1 to March 31), high working capital intensity and weak debt coverage indicators. The ratings also factors in its moderate but slow-moving order book with geographical concentration and its 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 outlook on the long-term rating of the bank facilities of HEC continue to remain 'Negative' on account on its continued subdued performance during FY22 and expectation of pressure on its liquidity as significant funds being deployed in receivables and deposits. 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 - Factors that could lead to positive rating action/upgrade:

- 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 1.50 times and Total Debt/Gross Cash Accruals (TD/GCA) below 5 times on a sustained basis
- Significant contraction in gross operating cycle (receivables plus inventory) below 180 days

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Inability to improve its TOI to 65 crore along with decline in PBILDT margin falling below 6% on sustained basis
- Deterioration in debt coverage indicator marked by Interest coverage below 1.25x on sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations and profitability which continue to remain under pressure amidst Covid 19 disruption 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.43.86 crore in FY22 though improved over FY21 (Rs.37.57 crore) albeit on a small base and still lower than pre-covid levels. The PBILDT margin had remained modest in FY22 at 6.32%, primarily on account of increase in input costs which it was not able to pass onto its customers.

HEC's debt coverage indicators remained weak in FY22 marked by high total debt/GCA of 49.31 times (FY21: 59.75x) and modest Interest coverage of 1.07x (FY21: 0.89x) with modest profitability and incremental unsecured loans (USL) infused by promoters to support the liquidity.

High working capital intensity

HEC's operations had remained modest in FY22 while its working capital requirements remained high leading to elongated working capital cycle of 216 days in FY22 (FY21: 210 days). HEC has significant capital deployed in working capital in form of security deposits/Earnest money deposits apart of receivables and inventory aggregating which has not shown any major improvement in FY22 viz. Rs.65 crore (approx.) as on March 31, 2022 as compared to Rs.67 crore (approx.) as on March 31, 2021. As on March 31, 2022 out of total debtors of Rs.31.05 crore, Rs.17.44 crore (56%) are outstanding for more than 6 months. However, management has articulated that going forward with completion of orders which are into final stages and billing in FY23, liquidity is expected to improve which is a key rating monitorable.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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. Non availability of site for work due to COVID restrictions and delay in final billing has piled up the inventory.

Moderate but slow-moving order book with geographical concentration

HEC has outstanding order book of Rs.114.90 crore as on June 30, 2022 out of which orders amounting to Rs.20 crore shows no progress due to non-availability of site and in around Rs. 10 crore of orders final billing is pending from August 31, 2021. Order book to sales ratio of 2.63 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. Execution of projects within stipulated timeframe remains crucial from the credit perspective.

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 and large number of small players, there is stiff competition at the time of bidding of contracts.

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.

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. 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.

Promoters are continuously infusing funds in the form of unsecured loans viz. Rs. 4.52 crore during FY22 to support business operations. Total unsecured loans stood at Rs.18.08 crore as on March 31, 2022.

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 laying, 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 contract from the nodal agencies of government was 73% of the outstanding order book as on June 30, 2022.

Moderate capital structure

HEC's capital structure remained moderate marked by overall gearing of 1.25x as on March 31, 2022 which was largely in line with March 31, 2021 (1.12x). Total debt increased mainly on account of increase in unsecured loan by promoter to meet its incremental working capital requirements.

Liquidity: Stretched

HEC has stretched liquidity position marked by high utilization of working capital limits, elongated operating cycle and modest cash accruals which are tightly matched against its repayment obligations. HEC has term debt repayment obligations of around Rs.1.67 crore for FY23. During FY22, company has reported negative cashflow from operations of Rs.3.33 crore (PY – inflow of Rs.1.48 crore). Average fund-based and non-fund based working capital utilization for past twelve months ended May, 2022 remained high at 95% and 59% respectively. Current ratio remained moderate at 2.50 times as on March 31, 2022. As on March 31, 2022 cash and bank balance stood at Rs.2.72 crore, out of which Rs.2.65 crore is lien marked FDs.

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](#)

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 and it shifted to NSE mainboard in December 2021. HEC is an EPC contractor and provides SITC services to multiple governments 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)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	37.57	43.86	NA
PBILDT	2.31	2.77	NA
PAT	0.31	0.51	NA
Overall gearing (times)	1.12	1.25	NA
Interest coverage (times)	0.89	1.07	NA

A: Audited; UA: Un Audited

Status of non-cooperation with previous CRA: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ 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	0.51	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	11.50	CARE BB+; Negative	-	1)CARE BB+; Negative (13-Oct-21)	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)
2	Non-fund-based - ST-BG/LC	ST	22.00	CARE A4+	-	1)CARE A4+ (13-Oct-21)	1)CARE A4+ (05-Oct-20) 2)CARE A4+ (04-Aug-20)	1)CARE A3 (01-Oct-19) 2)CARE A3 (10-Jun-19)
3	Term Loan-Long Term	LT	0.51	CARE BB+; Negative	-	1)CARE BB+; Negative (13-Oct-21)	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)

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**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

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Akhil Goyal
Phone: 8511190015
E-mail: akhil.goyal@careedge.in

Relationship contact

Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in