

HEC Infra Projects Limited

April 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Negative and withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4+ and withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB+; Negative/CARE A4+' [Double B plus; Outlook: Negative/ A Four Plus] assigned to the bank facilities of HEC Infra Projects Limited with immediate effect. The above action has been taken at the request of HEC Infra Projects Limited and 'No Objection Certificate' received via email from the bank that has extended the facilities rated by CARE.

The ratings continue to remain constrained due to its modest scale of operations and profitability, high working capital intensity and weak debt coverage indicators. The ratings also factor in its moderate but slow-moving order book with geographical concentration, its presence in competitive and tender driven industry and 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 in HEC's reputed clientele base and moderate capital structure.

Analytical approach: Standalone

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 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 its scale of operations and profitability while shortening its working capital cycle thereby improving its liquidity position.

Detailed description of the key rating drivers:

Key weaknesses

Modest scale of operations and profitability and weak debt coverage indicators

HEC reported modest TOI of Rs.43.86 crore in FY22. During 9MFY23, HEC's scale of operations improved by 25% on y-o-y basis, however, continue to remain modest at Rs.32.53 crore. PBILDT margin improved during 9MFY23 to 9.04% (9MFY22: 7.65%). Consequently, PAT also increased from Rs.0.18 crore in 9MFY22 to Rs.0.32 crore in 9MFY23.

HEC's debt coverage indicators continue to remain weak in 9MFY23 marked by modest interest coverage of 1.27x (FY22: 1.07x) with modest GCA levels.

High working capital intensity

HEC's operations remained modest in FY22 while its working capital requirements remained high leading to an 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%) is 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.

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 show 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

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

book to sales ratio of 2.63 times providing medium to long term revenue stability. The 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 the 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 the 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 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 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 a 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.

Applicable criteria

- [Policy on default recognition](#)
- [Financial Ratios – Non financial Sector](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Service Sector Companies](#)
- [Construction](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

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 a contractor license from GETCO.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2023 (UA)
Total operating income	37.57	43.86	32.53
PBILDT	2.31	2.77	2.94
PAT	0.31	0.51	0.32
Overall gearing (times)	1.12	1.25	NA
Interest coverage (times)	0.89	1.07	1.27

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: 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: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	30-04-2025	0.00	Withdrawn

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Negative (16-Aug-22)	1)CARE BB+; Negative (13-Oct-21)	1)CARE BB+; Stable (05-Oct-20) 2)CARE BB+; Stable (04-Aug-20)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A4+ (16-Aug-22)	1)CARE A4+ (13-Oct-21)	1)CARE A4+ (05-Oct-20) 2)CARE A4+ (04-Aug-20)
3	Term Loan-Long Term	LT	-	-	-	1)CARE BB+; Negative (16-Aug-22)	1)CARE BB+; Negative (13-Oct-21)	1)CARE BB+; Stable (05-Oct-20) 2)CARE BB+; Stable (04-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Deepak Purshottambhai Prajapati Senior Director CARE Ratings Limited Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in</p>	<p>Analytical Contacts</p> <p>Kalpesh Ramanbhai Patel Director CARE Ratings Limited Phone: +91-79-40265611 E-mail: kalpesh.patel@careedge.in</p> <p>Akhil Goyal Associate Director CARE Ratings Limited Phone: +91-79-40265621 E-mail: akhil.goyal@careedge.in</p> <p>Darshini Shah Analyst CARE Ratings Limited E-mail: Darshini.Shah@careedge.in</p>
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About us:

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