

## HMM Infra Limited

April 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	52.37	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long Term / Short Term Bank Facilities	80.00	CARE BBB+; Stable / CARE A3+	Revised from CARE BBB; Stable / CARE A3+

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of HMM Infra Limited (HMM) derive strength from growing scale of operations of the company with moderate profitability margins supported by healthy & growing order book providing revenue visibility in medium term. The ratings also factor in the average financial risk profile of the company marked by moderate capital structure and debt coverage indicators. The ratings also take into cognizance the company receiving direct contracts for civil construction (including supply of fabricated steel structures) which is reducing their dependency on other contractors. The ratings also factor in the healthy execution of orders during 9MFY24 (refers to the period from April 1 to December 31) resulting in growth in scale of operations of the company. The ratings also take into consideration the long track record of operations of the company and its experienced promoters. The ratings, however, are constrained by the customer concentration risk and elongated operating cycle of the company owing to higher inventory holding period. The ratings also take cognizance of fragmented & competitive nature of the industry coupled with susceptibility of profitability margins to raw material price variability.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant improvement in the debt coverage indicators of the company marked by an overall gearing of less than 0.50x and a TDGCA of less than 2x.
- Significant improvement in the liquidity position of the company with reduced reliance on external working capital and shortening of the Gross Current asset days to ~150 days.

#### Negative factors

- Decline in operating income to less than Rs. 200 Cr along with PBILDT margin below 9% on a sustained basis.
- Any major deterioration in the capital structure arising from debt funded capex, increased working capital borrowings leading to an above 1.20x overall gearing ratio and TOL/TNW of above 1.50x on a sustained basis.

### Analytical approach: Standalone

### Outlook: Stable

The Stable outlook reflects that the entity is likely to sustain its operational and financial performance in the medium term backed by its healthy and growing order book position and experienced promoters of the company.

### Detailed description of the key rating drivers:

#### Key strengths

##### Growing scale of operations with moderate profitability margins

During FY23 (refers to the period from April 01, 2022, to March 31, 2023), the company reported a total operating income (TOI) of Rs. 255.13 Cr registering a growth of ~13% over FY22's TOI of Rs 224.91 Cr. The scale of operations, increased on account of EPC work done and healthy execution of orders hand. The PBILDT margin of the company have remained moderate and improved to 13.59% in FY23 from 12.76% in FY22. The improvement in margins of the company was primarily driven by execution of better margin projects in FY23. However, higher interest cost and depreciation resulted in PAT margin to be at similar levels in

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

at 6.96% in FY23. (PY: 6.94%). The higher interest cost was primarily driven by increase in working capital requirements of the company to support the growing scale of operations and increase in base rate of interest. Further, the company has reported a TOI of Rs. 314.57 crores in 9MFY24 (refers to the period from April 01, 2023, to December 31, 2023) with PBILDT margin of 13.69% and company expects to achieve TOI of Rs. 476.35 crores in FY24. The company has already booked a TOI of Rs. 430.54 crores in 11MFY24 (refers to the period April 01, 2023, to February 29, 2024) and expects to achieve a TOI of around Rs. 475 crores during FY24. CARE expects company to maintain the growing scale of operations supported by healthy order book position.

#### **Average financial risk profile:**

The capital structure of the company stood at a moderate level at 1.10x as on March 31, 2023. Moderation in capital structure was primarily due to disbursement of mobilisation advances (reflected as term loans in balance sheet) during March 2023 of Rs. 24.40 crores which was partially deployed for purchase of inventory for additional orders received by company and balance Rs. 10 crores were parked in current account of the company. The overall gearing considering net debt as on March 31, 2023, stood at around 1x. Further, owing to healthy profitability during 9MFY24 resulting in accretion to net worth, the gearing improved and stood at 0.67x as on December 31, 2023. The coverage indicators as marked by interest coverage ratios and TD/GCA moderated to 4.83x and 4.92x as on March 31, 2023, from 5.63x and 3.93x respectively. The TDGCA stood at 4.36x as on December 31, 2023. CARE expects the working capital requirements of the company on higher side thereby maintaining its average financial risk profile in medium term.

#### **Long track record of operations along with a healthy order book position and a reputed client base**

HMM is engaged in the engineering industry for more than two decades. The company has been indulged in various large-scale projects for some reputed clients like Maharashtra Rail Infrastructure Development Corporation Limited, KEC International Limited, Gawar Construction Limited etc., thus having a well-established reputation in the EPC industry in India. As on January 31, 2024, the unexecuted order book of the company stood Rs. 1323.20 crore which is 5.19 times the TOI of FY23, providing medium-term revenue visibility.

#### **Experienced promoters**

The company is led by Mr. Bhupinder Goel (Managing Director), Mr. Ajay Mittal (Director; Cousin of Mr. Bhupinder Goel), Mr. Mannan Goel (Director; Son of Mr. Bhupinder Goel), Mrs. Alka Goel (Director; Wife of Mr. Bhupinder Goel), Mr. Lokesh Bansal (Independent Director) and Mr. Vineet Aggarwal (Independent Director) who have experience ranging from ~16 years to ~46 years in the industry. The day-to-day operations of company are mainly handled by Mr. Bhupinder Goel (handling the finance function), Mr. Ajay Mittal (handling the administration) and Mr. Mannan Goel (handling the marketing function). The directors of the company are ably supported by a well-qualified team of professionals who are highly experienced in their respective domains.

#### **Key weaknesses**

##### **Client concentration risk, albeit; declining concentration over the years**

HMM faces customer concentration risk with the top-5 and top-10 clients accounting for ~38% and ~61%, respectively, of the total income in FY23 [PY: ~40% from top-5 customers and ~63% from top 10 customers]. The contribution from top 10 customers has further reduced to ~56% during 9MFY24. The risk, however, is mitigated to some extent as the top revenue contributors are well established players and enjoy a strong position in the industry. HMM has been associated with few of these players for more than a decade and gets repeat orders from them. For the government contracts, the company builds the steel bridges along with the civil work required for the specific project.

##### **Competitive nature of the industry coupled with tender based operations**

The construction industry in India is highly fragmented with a large number of small and mid-sized players. This, coupled with tendering process in order procurement results into intense competition within the industry, which constrains the scale and profitability of companies operating in the industry.

##### **Susceptibility of margins to fluctuations in raw material prices**

The operations of HMM are highly raw material intensive in nature with the raw material cost constituting as the major cost of production. The prices of the key raw materials (steel) are fluctuating in nature as they depend on the demand and supply scenario. This exposes the margins of the company to any adverse movement in the raw material prices. However, in some of

the contracts, wherein the duration of the project extends to more than 6 months, there exists an escalation clause to mitigate the company's risk of raw material price volatility.

#### **Liquidity: Adequate**

The Liquidity profile of the company is adequate as marked by repayment obligation of Rs. 5.93 Cr against projected gross cash accruals Rs. 42.83 crores in FY24. The company had free cash and bank balance of Rs.10.74 Cr as on March 31, 2023. However, the working capital requirements of the company remain on elevated levels marked by gross current asset days of 255 days as on March 31, 2023 (PY: 240 days) thereby resulting in high reliance on external funds. The average utilisation of the fund based working capital limits of the company over the past 12 months ending December 2023 stood high at around 82%. Furthermore, the company also relies on mobilization advances from lenders and its customers to manage its elevated working capital requirements. The net cash flow from operations of the company also remains on lower side which stood at Rs. 3.65 crores during FY23 (PY: Rs. 5.69 crores). The company also plans to incur a capex of approximately Rs. 6-7 crore in FY24 which is to be funded entirely through internal accruals.

#### **Assumptions/Covenants: Not Applicable**

#### **Environment, social, and governance (ESG) risks: Not Applicable**

#### **Applicable criteria**

[Definition of Default](#)

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#### **About the company and industry**

##### **Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

Incorporated in the year 1996, HMM Infra Limited (HIL; earlier known as HMM Coaches Limited) is an Ambala, Haryana based public limited company engaged in the business of manufacturing/fabrication of heavy steel structures and galvanized structures. The company has a single manufacturing facility in Ambala, Haryana with an installed capacity of 3000 Metric Tonnes per month as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	224.91	255.13	314.57
PBILDT	28.70	34.67	43.05
PAT	15.61	17.75	23.74
Overall gearing (times)	0.95	1.10	0.67
Interest coverage (times)	5.63	4.83	4.99

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		-	-	-	45.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	Oct 2026	7.37	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	80.00	CARE BBB+; Stable / CARE A3+

#### 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	45.00	CARE BBB+; Stable	1)CARE BBB; Stable (04-Apr-23)	-	1)CARE BBB; Stable (29-Mar-22)	1)CARE BBB; Stable (23-Mar-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	80.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (04-Apr-23)	-	1)CARE BBB; Stable / CARE A3+ (29-Mar-22)	1)CARE BBB; Stable / CARE A3+ (23-Mar-21)
3	Fund-based - LT-Term Loan	LT	7.37	CARE BBB+; Stable	1)CARE BBB; Stable (04-Apr-23)	-	1)CARE BBB; Stable (29-Mar-22)	-

LT: Long term; LT/ST: 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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	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](mailto:care@careedge.in) for any clarifications.

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### About us:

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