H K Infracon Private Limited

December 28, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	8.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	9.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**17.00 (₹ Seventeen Crore Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating to the bank facilities of H K Infracon Private Limited (HKIPL) are tempered by small scale of operations and low neworth base resulting in to leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operation and moderate profitability margins with low cash accruals. The ratings also remained tempered on account of presence of the company in highly fragmented and competitive nature of industry. The ratings, however, draw comfort from experienced promoters with established track record of operation of the company in the construction sector and moderate orderbook position of the company.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- ✓ Timely execution of its present orders along with diversification in order book resulting in healthy revenue growth & improved accruals on sustained basis.
- ✓ Improvement in gross working capital cycle below 150 days.
- ✓ Significant improvement in net worth base of the company on a sustained basis.

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

- × Decline in total operating income below Rs.18 crore and PBILDT margin below 8% on a sustained basis.
- × Decline in flow of fresh orders and delay in execution of the outstanding orders impacting the overall financial risk profile of the company.

Detailed description of the key rating drivers

<u>Key rating weaknesses</u>

Highly competitive industry fragmented and tender-driven nature of business: HKIPL operates in tender-based environment which is characterized by intense competition and fragmented nature of industry resulting in moderate operating profit margins for the company. The growth of business depends entirely upon the company's ability to successfully bid for tenders and emerge as the lowest bidder.

Geographical Concentration with operations confined to Gujarat region: HKIPL is relatively small player with operations confined majorly to the Gujarat, hence, the business is exposed to geographical concentration risk. All the projects completed in the last few years have been from Gujarat and few orders from Madhya Pradesh as well. Also, the outstanding unexecuted orderbook position of HKIPL as on November 30, 2022, pertains to projects entirely in Gujarat. Even within this segment its expertise lies in the construction of buildings. Currently HKIPL has 6 orders as on November 30, 2022, with a total value of Rs.57.24 crore.

Small scale of operations and low networth base resulting in to leveraged capital structure and weak debt coverage indicators: During FY22, TOI of the company has significantly grown by 45.75% to Rs.21.53 Crore (vis-à-vis Rs.14.77 crore in FY21) owing to completion of orders which were delayed due to covid-19 related lockdown. Furthermore, during YTDFY23 (refers to the period April 1, 2022, to November 30, 2022) the company has recorded TOI of Rs.6.92 crore (vis-à-vis Rs.7.22 crore during 8M FY22). Further, the networth base of the company continued to remain low at Rs.5.16 crore as on March 31, 2022. Despite established track record of more than a decade of execution of constructing building, the scale of operations of the company continues to remain small, coupled with low net-worth base, which further limits the financial flexibility of the company during exigencies and industry downturn.

The company relies on unsecured loan from promoters and working capital borrowings for its day-to-day business operations of the business. The total debt the company of Rs. 17.83 crore as on March 31, 2022, primarily consisted of Rs.8 crore of working capital borrowings, unsecured loan of Rs.8.61 crore from promoters and Rs.1.18 crore of long-term borrowing. Consequent to lower net worth base, the capital structure of the company remains leveraged marked by TOL/TNW of 5.15x as on March 31, 2022. Also, the debt coverage indicator remain weak marked by TDGCA at 21.67x in FY22.

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

Working capital intensive nature of operations: As a result of tender based nature of business coupled with dependency on state government for orders, the operation of the company remain working capital intensive in nature. The operating cycle of the company improved to 313 days in FY22 as compared to 502 days in FY21, despite improvement the cycle continues to remain stretched. HKIPL treats amount from government which is to be billed as WIP in inventory. Inventory days improved from 441 days in FY21 to 291 days in FY22, the improvement in inventory days was on account of lower WIP consequent to faster receipt of bills. Receivable days too improved from 150 days in FY21 to 120 days in FY22 on account of improved billing efficiency from government orders. The ability of the company to reduces its gross operating cycle remain critical from the credit perspective and a key monitorable.

Key rating strengths

Experienced promoters along with an established track record of the company: HKIPL was established as a partnership firm in the year 2009 later converted into private limited in year 2012. The operations are managed by Mr. Hitesh Kumar and Mr. Amit Kumar having an experience of more than two decades in the construction industry. The promoter looks after day-to-day affairs of the business with support from a team of experienced personnel. Being in the industry for over a decade coupled with the experience of the promoters, has established itself as a AA contractor in Building category in Gujarat State.

Moderate order book position: HKIPL has an outstanding unexecuted order book position of around Rs.57.24 crore as on November 30, 2022, thereby indicating order book (OB) to sales ratio 2.65 times of TOI of FY22. The said orders are to be executed over a period of more than 1 year, indicating revenue visibility for the short to medium term period. Furthermore, during YTDFY23 (refers to the period April 1, 2022, to November 30, 2022) the company has recorded TOI of Rs.6.92 crore (vis-à-vis Rs.7.22 crore during 8M FY22) and the company is expected to achieve a TOI of Rs.23 crore in FY23.

Absence of Subcontracting: HKIPL is not dependent on Sub-contracting. The company has their own machinery and equipment's for executing all the construction related works.

Liquidity: Stretched

Liquidity position of the company is stretched considering full utilization of limits. Also, working capital cycle has improved albeit stretched from 502 days in FY21 to 313 days in FY22. HKIPL treats amount from government which is to be billed as WIP in inventory. Inventory days improved from 441 days in FY21 to 291 days in FY22, the improvement in inventory days was on account of lower WIP consequent to faster receipt of bills. Receivable days improved from 150 days in FY21 to 120 days in FY22 on account of improved billing efficiency from government orders. Overall Gearing has slightly improved but remained high at 3.46x as on March 31, 2022, as against 3.99x as on March 31, 2021. Further, HKIPL has projected the gross cash accruals of Rs.0.90 crore, as against this the company has a principal repayment of Rs.0.29 crore during FY23. Comfort can be drawn from presence of healthy unencumbered cash and bank balance of Rs 4.71 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria

CARE's Policy on Default Recognition
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Short Term Instruments
Construction

About the company

H K Infracon Private Limited (HKIPL) was established in the year 2009 as Partnership firm by Mr. Hitesh Kumar and Mr. Amit Kumar, later converted into Private Limited on July 26, 2012. It has a registered office in Mehsana, Gujarat, India. HKIPL is engaged in the construction of building, Civil construction, repairing as well in construction of allied bridges. HKIPL is a Gujarat and Madhya Pradesh State registered AA contractor in Building category.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (UA)
Total operating income	14.77	21.53	6.92
PBILDT	2.51	2.64	NA
PAT	0.31	0.36	NA
Overall gearing (times)	3.99	3.46	NA
Interest coverage (times)	1.32	1.36	NA

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Nil
Current year performance: The company has reported a TOI of Rs.6.92 crore in 8MFY23(UA)
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3
Complexity level of various facilities rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Facility	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	8.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	9.00	CARE A4

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 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	Non-fund-based - ST-Bank Guarantee	ST	9.00	CARE A4				
2	Fund-based - LT-Cash Credit	LT	8.00	CARE B+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facility	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To 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.

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