HEC Infra Projects Limited

August 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	15.93	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Short-term Bank Facilities	22.00	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total	**37.93 (Rupees Thirty Seven crore and Ninety Three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in ratings assigned to the bank facilities of HEC Infra Projects Limited (HEC) take into account the significant decline in its scale of operations and cash accruals during FY20 (FY refers to the period from April 1 to March 31) amidst disruption in operations due to outbreak of COVID-19 pandemic and deterioration in its debt coverage indicators. The revision in ratings also factor stretch in its inventory and receivables along with its slow-moving order book.

The ratings further continue to remain constrained on account of HEC's modest scale of operations in an intensely competitive infrastructure service industry, elongated operating cycle, stretched liquidity and geographical concentration of its order book in the state of Gujarat. The ratings are also constrained on account of susceptibility of HEC's income to economic cycles, regulatory changes, dependence on investment flow in the infrastructure sector. CARE also takes cognizance of the company availing the moratorium granted by its lenders from March, 2020 to August, 2020 on its debt obligations as a Covid-relief measure (as permitted by the Reserve Bank of India).

The ratings, however, continue to derive strength from HEC's technically qualified and experienced promoters, its established track record of more than three decades as an EPC (Engineering, Procurement and Construction), SITC (Supply, Installation, Testing & Commissioning) contract company for Electro-Mechanical instrumentation and automation projects along with its long standing association with reputed clientele across both government and private sector entities. The ratings also factor its moderately leveraged capital structure.

Rating Sensitivities

Positive Factors

- Increase in scale of operations with Total Operating Income (TOI) of more than Rs.125 crore along with improvement in PBILDT margin above 10% on a sustained basis through timely execution of orders
- Improvement in debt coverage indicator marked by Interest coverage more than 2 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

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant decline in scale of operations and cash accruals in FY20 amidst disruption in operations due to COVID-19 pandemic; and deterioration in its debt coverage indicators

During FY20, HEC reported significant decline in its scale of operations with TOI falling to Rs.40.09 crore in FY20 as compared with Rs.81.09 crore in FY19 despite having moderate order book owing to non-execution of one of its major order from Gujarat Energy Transmission Company (GETCO) of Rs.86.55 crore which was earlier envisaged and slow moving orders related to its Ahmedabad metro projects. This along with lower billing in month of March 2020 due to lockdown imposed owing to COVID-19 pandemic had impacted it scale of operations. Further, in Q1FY21 operations were impacted due to COVID-19 pandemic. Further, company is also facing labour shortage and site clearance issues however, situation is gradually improving.

Earlier, the company management had articulated about starting its GETCO orders from November 2019 in fast track mode so as to cover-up for its lower TOI in H1FY20. The contract is for EPC of power substation wherein major equipment was to be supplied by a Chinese company (Sieyuan Electric Co. Ltd., Shanghai. Primary equipment (valuing approx. Rs.30-35 crore) and it was due for inspection and supply in January, 2020 but the same could not happen due to COVID-19

[1]*Complete definitions of the ratings assigned are available at https://www.careratings.com/ and in other CARE publications.*

outbreak which resulted in non-execution of same during FY20. Company management has now articulated that receipt of the same is expected in September, 2020 and completion of order is expected in FY21.
The PBILDT margin had improved marginally to 9.95% in FY20 over 8.50% in FY19 but with decline in TOI, absolute PBILDT was lower which coupled with proportionately higher interest costs resulted in decline in PAT and GCA to Rs.0.54 crore and Rs.0.77 crore respectively as compared with Rs.1.95 crore and Rs.2.21 crore in FY19.
Further, HEC's debt coverage indicators deteriorated in FY20 marked by high total debt/GCA of 43.67 times (FY18: 14.60x), moderate Interest coverage of 1.33x (FY19: 1.70x) and Total debt to PBILDT of 8.44x (FY19: 4.68x) due to decline in HEC's profitability along with high debt levels.

Moderate but slow-moving order book with geographical concentration
As on July 27, 2020, HEC had a moderate order book of Rs.231.78 crore. However, out of these pending orders, work amounting to Rs.169.31 crore have showed almost no progress compared with its status on October 31, 2019. HEC's order book is also geographically concentrated with majority of its orders being located in the state of Gujarat. Execution of projects within stipulated timeframe remains crucial from the credit perspective, however, migration of labours to their native places due to nation-wide lockdown resulted in labour shortage which may further affect execution of pending orders.

Elongation in its working capital cycle
HEC receives payments based on milestone achievement basis. HEC receives payment for around 70% of order value upon dispatch of material and execution of project while 15% of order value is received after inspection. Balance 10-15% of project value is kept as retention money by its clients who are generally released after 18-24 months of project completion. This results in higher investment in working capital.
During FY20, gross operating cycle elongated to 438 days from 264 days during FY19. Declined scale of operations (considering averaging impact) and stretched creditors, translated into elongation in working capital cycle to 139 days during FY20 from 83 days during FY19. As on March 31, 2020 inventory had increased on y-o-y basis due to delay in billing of work amidst COVID19 pandemic and had increased further on July 15, 2020 as well. Trade receivables also stood very high considering the sharp decline in its TOI during FY20; albeit it has shown declining trend with major recovery in April to July 2020 supporting its liquidity which were utilized for payments to creditors and repayment of ad-hoc limit availed by the company.

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.
With the spread of COVID-19 and subsequent lockdown, government prioritising its cash flows towards more pressing social measures and it may result in slower roll out of new tenders in the coming months, leading to run down in the order books of the EPC companies in the medium term.

Liquidity: Stretched
HEC has stretched liquidity position marked by high utilization of working capital limits and significant elongation of its gross operating cycle. However, it has low term loan installment repayment obligations of around Rs.0.88 crore for FY21 against moderate cash accruals. Average fund based and non-fund based working capital utilisation for past twelve months ended on June, 2020 remained high at 95% and 87% respectively. Company had also availed Rs.2 crore of ad-hoc limit against pledge of promoters' shares in HEC which was subsequently repaid in June, 2020. Further, lower bank guarantee limits available with the company to bid for new projects restrict its scale of operations. However, to support the operation and meeting working capital requirements, promoter has infused unsecured loan of Rs. 3.74 crore during FY20 and company has also availed moratorium on repayment of installment on term loan and interest on cash credit facility for the period from March, 2020 to August, 2020. Current ratio remained moderate at 1.89 times as on March 31, 2020.

Key Rating Strengths
Experienced and technically qualified promoters with established track record of operations
Mr. Gaurang Shah, Managing Director, is a mechanical engineer with more than three decades of experience in the electrical and instrumentation industry. Mr. Gaurang Shah's son, Mr. Rahul Shah joined HEC in March, 2018 as a project manager and looks after operations of the company. The management team is supported by a team of professionals for execution of complex EPC projects. HEC has an established track record of more than three decades in EPC of various electro-mechanical and instrumentation projects in Gujarat, Maharashtra, Rajasthan, New Delhi and Haryana. 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) and has also been awarded contractor license from GETCO.

Reputed clientele
HEC has vast experience 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. Further, its outstanding order book is diversified amongst reputed private players, Government and Semi-Government entities having healthy credit risk profile which mitigates the risk of counterparty default to a certain extent.

Moderate capital structure
HEC's capital structure remained moderate marked by overall gearing of 1.18x as on March 31, 2020 which was largely in line with March 31, 2019 (1.15x). Total debt increased mainly on account of increase in unsecured loan by promoter 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
Liquidity Analysis of Non-financial sector entities

About the Company
Incorporated as a partnership firm in 1986, Ahmedabad-based HEC 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)	FY19 (A)	FY20 (A)
Total Operating Income	81.09	40.09
PBILDT	6.89	3.99
PAT	1.95	0.54
Overall gearing (times)	1.15	1.18
Interest coverage (times)	1.70	1.33

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A4+
Term Loan-Long Term	-	-	April, 2025	0.93	CARE BB+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (01-Oct-19) 2)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB; Stable (28-Sep-18)	1)CARE BBB; Stable (06-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	22.00	CARE A4+	-	1)CARE A3 (01-Oct-19) 2)CARE A3 (10-Jun-19)	1)CARE A3 (28-Sep-18)	1)CARE A3 (06-Oct-17)
3.	Term Loan-Long Term	LT	0.93	CARE BB+; Stable	-	1)CARE BBB-; Stable (01-Oct-19) 2)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB; Stable (28-Sep-18)	1)CARE BBB; Stable (06-Oct-17)

Annexure-3: Complexity level of various instruments rated for this company

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

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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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