

## HEC Infra Projects Limited

October 01, 2019

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	15.93 (reduced from Rs.16.19 crore)	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	22.00	<b>CARE A3</b> <b>(A Three)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>37.93</b> <b>(Rs. Thirty Seven crore and</b> <b>Ninety Three lakh only)</b>		

<sup>1</sup>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 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 entities. The ratings also factor its moderately leveraged capital structure, debt coverage indicators and moderate order book reflecting medium term revenue visibility.

The ratings, however, continue to remain constrained on account of HEC's declining and modest scale of operations in an intensely competitive infrastructure industry, high working capital intensity of its operations, 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 and dependence on investment flow in the infrastructure sector.

The ability of HEC to scale up its operations through timely execution of orders and realization of debtors with efficient working capital management alongwith improvement in its profitability and capital structure would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### 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 also been awarded contractor license from Gujarat Energy Transmission Company (GETCO).

##### ***Reputed clientele with moderate order book albeit geographical concentration of orders***

HEC has a 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.

As on June 30, 2019, HEC had an order book of Rs.196.75 crore, [excluding stalled orders of Rs. 47.48 crore] reflecting moderate revenue visibility over medium term [2.43x of total operating income (TOI) of FY19]. HEC's order book is geographically concentrated in the state of Gujarat, and top ten contracts constitute approximately 85% of order book which also exposes it to client concentration. Execution of projects within stipulated timeframe remains crucial form the credit perspective.

##### ***Moderate capital structure and debt coverage indicators***

HEC's capital structure remained moderate marked by overall gearing of 1.15 times as on March 31, 2019 which deteriorated from 0.99 times as March 31, 2018. Total debt increased to 32.23 crore as on March 31, 2019 mainly on account of increase in unsecured loan by promoter (Rs. 3.09 crore) and new loan from SIDBI to meets its incremental working capital

requirements. Further, Promoter has also infused unsecured loan of Rs. 4 crore during 5MFY20 ended on August, 2019 to support the operation and meeting its working capital requirements.

HEC has moderate debt coverage indicators which deteriorated in FY19 marked by high total debt/GCA of 14.60 times (FY18: 7.18 times), moderate Interest coverage of 1.70 times (FY18: 2.45 times) and Total debt to PBILDT of 4.68 times (FY18: 2.98 times) due to decline in HEC's profitability and increase in debt levels.

#### **Key Rating Weaknesses**

##### ***Declining and modest scale of operations with moderate profitability***

Scale of operations of HEC remained modest and has reflected a declining trend in Total Operating Income (TOI) during last three years from Rs.116.76 crore in FY16 to Rs. 81.09 crore in FY19 and was substantially lower than envisaged level despite having healthy order book. The lower TOI was mainly on account of delay in execution of its metro-link express projects worth Rs. 47.52 crore, which has remained unexecuted by the end of FY19. However, work has been started in one of the stalled metro-link express project worth Rs. 25.00 crore during September, 2019.

During FY19, HEC had hired specialized personnel for execution of metro related projects leading to increase in its overheads but non execution of some of these projects had resulted in significant decline in its PBILDT margin by 197 bps over FY18 to 8.49%. Consequently, PAT margin had also declined by 161 bps to 2.41% in FY19.

##### ***Working capital intensive nature of operations***

HEC's operations are inherently working capital intensive as it 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 projects value is kept as retention money by its client and which is generally released after 18-24 months of project completion. This results in higher investment in working capital.

Further, revenue booking of HEC was highly skewed in the month of March, 2019 as around 40% of its TOI was booked in the March month which results in elongated receivables period of 224 days in FY19 (238 days in FY18). Also, HEC has started reporting retention money under security deposits. Overall working capital intensity has increased as reflected by increase in Net working capital/TOI to 56% as on March 31, 2019 as against 40% as on March 31, 2018 with increase in security deposits, EMD against contracts and GST Receivables.

##### ***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. However, the renewed focus of the government on infrastructure development is likely to augur well for the order inflows for EPC contractors.

##### ***Liquidity: Stretched***

Liquidity position of HEC remained stretched marked by high utilisation of its working capital limits, negative cash flow from operating activities from last two years and modest free cash and balance of Rs. 0.08 crore as on March 31, 2019. However, it has low repayment obligations of around Rs.0.85 crore for FY20 against moderate cash accruals. Average fund based and non-fund based working capital utilisation of past twelve month ended on August, 2019 remained high at 93% and 88% respectively. Further, lower bank guarantee limits available with the company to bid for new projects restrict its scale of operations. However, Promoter has infused unsecured loan of Rs. 4 crore during 5MFY20 ended on August, 2019 to meet its working capital requirement. Current ratio and quick ratio remained moderate at 1.58 times and 1.39 times as on March 31, 2019. Cash flow from operating activities stood at negative Rs. 4.06 crore during FY19 as against negative cash flow from operating activities at Rs. 1.99 crore in FY18.

**Analytical approach:** Standalone

#### **Applicable Criteria:**

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Service sector companies](#)

#### **About the company**

Incorporated as a partnership firm in 1986, Ahmedabad-based HEC converted itself into 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 Gujarat Energy Transmission Company (GETCO).

Brief Financials (Rs. Crores)	FY18 (12M,A)	FY19 (12M,A)
Total Operating Income	83.41	81.09
PBILDT	8.73	6.89
PAT	3.34	1.95
Overall gearing (times)	0.99	1.15
Interest coverage (times)	2.45	1.70

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 BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A3
Term Loan-Long Term	-	-	April, 2025	0.93	CARE BBB-; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	1)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB; Stable (28-Sep-18)	1)CARE BBB; Stable (06-Oct-17)	1)CARE BBB (12-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	22.00	CARE A3	1)CARE A3 (10-Jun-19)	1)CARE A3 (28-Sep-18)	1)CARE A3 (06-Oct-17)	1)CARE A3 (12-Oct-16)
3.	Term Loan-Long Term	LT	0.93	CARE BBB-; Stable	1)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB; Stable (28-Sep-18)	1)CARE BBB; Stable (06-Oct-17)	1)CARE BBB (12-Oct-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact Us

### Media Contact

Mradul Mishra

Contact no. - +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Akhil Goyal

Contact no. - +91-79-40265621

Email: [akhil.goyal@careratings.com](mailto:akhil.goyal@careratings.com)

### Business Development Contact

Deepak Prajapati

Contact no. - +91-79-40265602

Email: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

### 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.

### Disclaimer

CARE's 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. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**