

## HEC Infra Projects Limited

October 05, 2020

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	15.83 (Reduced from 15.93)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	22.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	37.83 (Rs. Thirty-Seven Crore and Eighty-Three Lakhs Only)		

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 constrain due to its modest scale of operation which declined significantly in FY20 (FY refers to the period from April 1 to March 31) amidst disruption in operations due to COVID19 pandemic, weak debt coverage indicators, elongated operating cycle and stretched liquidity. The ratings are further constrained on account of moderate but slow-moving order book with geographical concentration in Gujarat, presence in competitive infrastructure service industry, susceptibility of HEC's income to economic cycles and dependence on investment in infrastructure segment. CARE also takes cognizance that company had availed the moratorium from March, 2020 to August, 2020 on its debt obligations as a COVID19 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

- Increasing scale of operations with Total Operating Income (TOI) of more than Rs.125 crore along with improvement in PBILDT margin to more than 10% on a sustained basis through timely execution of orders
- Improvement in debt coverage indicator marked by Interest coverage above 2x and Total Debt/Gross Cash Accruals (TD/GCA) below 5x 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 falling below 7%
- Deterioration in debt coverage indicator marked by Interest coverage below 1.25 times

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Modest scale of operations which declined significantly in FY20 amidst disruption in operations due to COVID19 pandemic and weak 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 COVID19 pandemic had impacted its scale of operations.

Earlier, the company management had articulated that GETCO order would start from November 2019 in fast track mode 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 Siewuan Electric Co. Ltd., Shanghai (Chinese company). The inspection and supply of primary equipment (valuing approx. Rs.30-35 crore) was due in January, 2020 but same could not happen due to COVID19 outbreak which resulted in non-execution of same during FY20. Company management has now articulated that receipt of same is expected in December, 2020 and part completion of order is expected in FY21.

The PBILDT margin had improved marginally to 9.96% in FY20 over 8.49% 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 (FY19: Rs.1.95 crore) and Rs.0.77 crore (FY19: Rs.2.21 crore) respectively.

<sup>1</sup>Complete definitions of the ratings assigned are available at <https://www.careratings.com/> and in other CARE publications.

Further, HEC's has weak debt coverage indicators which deteriorated in FY20 viz. high total debt/GCA of 43.69 times (FY19: 14.60x), moderate Interest coverage of 1.33x (FY19: 1.70x) and high 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 labourers to their native places due to nation-wide lockdown resulted in labour shortage and permissions from the local government to operate sites (like declaration of site as containment/ non containment area, clearance regarding compliance of COVID19 precautionary measures etc.) 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 439 days from 264 days during FY19. Declined scale of operations (considering averaging impact) and stretched creditors, further translated into elongation in working capital cycle to 140 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.

#### **Presence in competitive infrastructure service industry, 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 COVID19 and subsequent lockdown, government prioritizing 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 short 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.0.50 crore for FY21 against moderate cash accruals. Average fund based and non-fund based working capital utilization for past twelve months ended on August, 2020 remained high at 94% 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	0.83	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 BB+; Stable (04-Aug-20)	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 A4+ (04-Aug-20)	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	0.83	CARE BB+; Stable	1)CARE BB+; Stable (04-Aug-20)	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: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure-4: 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](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.

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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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