March 29, 2023

Hardev Construction Private Limited: [ICRA]BBB- (Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based working capital facilities	10.50	[ICRA]BBB- (Stable); assigned
Short-term – Non-fund based	88.00	[ICRA]A3; assigned
Total	**98.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to Hardev Construction Private Limited (HCPL) factor in the track record and extensive experience of its promoters in the construction sector, its satisfactory debt coverage metrics and moderate leverage, along with its healthy order book position and reputed clientele. HCPL registered a CAGR of ~13% in its OI during FY2019 to FY2022, and the growth momentum is expected to sustain over the medium term. Its order book primarily comprises construction of railway infrastructure, irrigational infrastructure, roads, flyovers and bridges, among others, from reputed public sector entities with a low counterparty credit risk, viz Rail India Technical and Economic Service (RITES), Rail Vikas Nigam Limited (RVNL) and Ircon International Limited (IRCON), along with state government departments of Jharkhand mainly Water Resource Department (WRD).

The ratings are, however, constrained by the company's modest scale of operations, concentration risk associated with HCPL's order book with top five projects accounting for ~58% of the same, and execution risk, given that ~62% of orders are in the nascent stages of execution (less than 25% progress). This includes around 50% projects that are slow moving due to initial delays in land acquisitions on account of authorities, which further increases the execution risk. ICRA notes that obtaining the requisite approvals for all new and existing orders will remain a key monitorable for maintaining medium-term revenue visibility. While HCPL has sizeable cash and bank balances, a major part of it is blocked as cash collateral, and margin towards the non-fund based limits, thereby constraining its flexibility and liquidity cushion. Its funding requirements in terms of non-fund based limits, along with associated margins and collateral, are expected to increase, considering the healthy pace of order execution and the likely rise in bidding going forward. Moreover, stiff competition in key segments makes it challenging to secure orders while sustaining its operating profit margins. The ratings consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for performance guarantee, earnest money deposit and security deposits. Nonetheless, ICRA takes comfort from HCPL's healthy execution track record and no crystallisation of guarantees in the past.

The Stable outlook reflects ICRA's belief that the company would continue to benefit from its experienced management, long and established track record in the construction sector, along with its healthy financial profile and strong credit metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in domestic civil construction segment with strong counterparties – Set up in 1980 as a proprietorship firm, HCPL was converted into a private limited company in 1994. It has over four decades existence in the civil construction space, which has helped it to establish strong relationships with its customers as well as suppliers. HCPL is currently headed by Mr. Avtar Singh, who has three decades of experience in the civil construction industry. The company executes orders primarily for Railways and its arms such as RITES, RVNL and IRCON, along with state government departments of Jharkhand mainly Water Resource Department (WRD). Its clients have a strong credit profile and a healthy track record of timely payments.

Adequate order book position provides medium-term revenue visibility – The company had an outstanding order book position of ~Rs. 510 crore as on February 28, 2023, which translates into OB/OI ratio of 2.7 times of FY2022 revenues. The current order book position medium-term revenue visibility. HCPL is expected to record revenues in the range of Rs. 230-250 crore in FY2023 and Rs. 250-270 crore in FY2024e.

Comfortable capital structure and coverage indicators – The company's capital structure has remained comfortable with gearing at 0.4 times and TOL/TNW at 1.1 times as on March 31, 2022, led by low dependence on external borrowings and consistent accretions to reserves, aiding in improvement of net worth. The coverage indicators remained comfortable with interest coverage of 4.5 times in FY2022 increasing from 3.2 times in FY2021, driven by improved profitability in FY2022.

Credit challenges

Moderate scale of operations and profitability, with intense competition in construction sector – The domestic civil construction industry remains fragmented and highly competitive as determined by the moderate bid to success ratios. Garnering adequate number of projects and ensuring their movement remains the key to optimal usage of resources and ultimately profitability. In FY2022, its operating income increased to Rs. 192.2 crore from Rs. 162.6 crore in FY2021, backed by sufficient orders at hand and healthy execution rate. However, the company's scale of operations continues to remain moderate, which limits ability to bid for larger size orders and its bargaining power with the key customers and suppliers.

Moderate execution risk and high order book concentration – The company is exposed to moderate execution risk, given that 62% of the order book as on February 28, 2022, is in the nascent stages of execution (less than 25% executed). This includes around 50% projects that are slow moving due to initial delays in land acquisitions on account of authorities, which further increases the execution risk. ICRA notes that obtaining the requisite approvals for all the new and existing orders will remain a key monitorable for maintaining medium-term revenue visibility.

Despite orders from various segments, railways, water projects and bridges divisions constituted ~97% of HCPL's unexecuted order book as on February 28, 2023. Further, in terms of geography, the revenues are highly concentrated, with Jharkhand contributing ~98% of the unexecuted order book as on February 28, 2023. The client concentration remains high with top three clients constituting 89% of the total unexecuted order book and the top five orders accounting for 58% of the unexecuted order book as on February 28, 2023.

Sizeable non-fund based exposure and significant amount of cash collateral requirements – HCPL is exposed to the inherent cyclicality in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in new order inflows, revenues and pressure on margins. It is vulnerable to sizeable contingent liabilities in the form of bank guarantees, mainly towards performance guarantee, earnest money deposit and security deposits. While HCPL has healthy cash and bank balances, a major part of it is blocked as cash collateral, and margin towards the non-fund based limits due to majority of the fund-based facilities being secured against cash collateral. The company's funding requirements in terms of non-fund-based limits, along with associated margins and collateral, are likely to increase, given the healthy pace of order execution and the expected rise in bidding going forward.

Liquidity position: Adequate

The company has adequate liquidity, supported by sufficient operating cash flows and undrawn bank lines. The average fund-based working capital limit utilisation in the last 12-month period ending February 28, 2023, remained moderate at ~61%. Further, there is sufficient cushion (~45% as against sanction limits) available for bank guarantee lines as on February 28, 2023 to bid for new projects in future.

Rating sensitivities

Positive factors – ICRA could upgrade HCPL's ratings if there is a material improvement in its scale of operations, and operating profitability along with reduction in the retention money, leading to improvement in its credit metrics and liquidity position.

Negative factors – Negative pressure on the ratings could arise if there are significant delays in project execution, leading to a decline in its scale, operating profitability, or deterioration in its liquidity position. Additionally, a significant deterioration in working capital intensity could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

HCPL, promoted by Mr. Hardev Singh, was established in 1980 as a proprietorship concern. The firm was reconstituted as a private limited company with the current name in 1994. It undertakes civil construction work such as road and bridge construction, land development, earthwork and lining work for canals, and construction and renovation of reservoirs, coupled with construction of new railway infrastructure, irrigational infrastructure, roads, flyovers and bridges, etc.

Key financial indicators (audited)

HCPL	FY2021	FY2022
Operating income	162.6	192.2
PAT	8.4	11.6
OPBDIT/OI	7.1%	9.4%
PAT/OI	5.2%	6.0%
Total outside liabilities/Tangible net worth (times)	1.2	1.1
Total debt/OPBDIT (times)	3.2	2.1
Interest coverage (times)	3.2	4.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company; ICRA research

Status of non-cooperation with previous CRA: CRISIL has migrated the rating from CRISIL BBB/Stable to CRISIL BB+/Stable (ISSUER NOT COOPERATING) category as per the press release dated March 30, 2022 citing unavailability of information.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Mar 29, 2023	-	-	-	-
1	Long-term – Fund-based working capital facilities	Long term	10.50	-	[ICRA]BBB- (Stable)	-	-	-	-
2	Short-term – Non-fund based	Short term	88.00	-	[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based working capital facilities	Simple
Short-term – Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based working capital facilities	NA	NA	NA	10.50	[ICRA]BBB- (Stable)
NA	Short-term – Non-fund Based	NA	NA	NA	88.00	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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