

Press Release

High End Quality Constructions Private Limited

December 02, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 25.00 crore bank facilities of HIGH END QUALITY CONSTRUCTIONS PRIVATE LIMITED (HEPL). The outlook is '**Stable**'.

High End Quality Constructions Private Limited (HEPL), a Pondicherry based company, was established in the year 2008 and is promoted by Mr. K. Siva Kumar and Mrs. T. Sudha. The company is engaged in executing civil construction projects and is a registered Class I contractor with the Public Works Department, Government of Tamil Nadu and Government of Pondicherry.

Analytical Approach

Acuité has taken standalone view of business and financial risk profile of HEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Established in 2008, HEPL is a Pondicherry-based entity engaged in civil construction in Pondicherry and Tamil Nadu. The promoter has a track record of over a decade in the undertaking tender based contract from the public works department of Pondicherry and Tamil Nadu. Acuité believes that the firm will continue to benefit through the proprietor's extensive industry experience over the medium term.

- **Average financial risk profile**

HEPL's financial risk profile is marked by its modest net worth, moderate gearing and moderate debt protection measures. The net worth improved to Rs. 2.58 crore as on 31 March, 2019 (Provisional) as against Rs. 1.85 crore in the previous year. The firm's gearing stood moderate at 1.80 times as on 31 March, 2019 (Provisional) as against 1.63 times in the previous year. The total debt of Rs. 4.64 crore consists of Rs. 2.99 crore of short term debt obligations and a vehicular term loan of Rs. 0.59 crore. The interest coverage ratio and NCA/TD stood at 3.17 times and 0.19 times in FY2019 (Provisional) as against 3.52 times and 0.32 in the previous year. Acuité believes that the financial risk profile will continue to remain average on account of moderate gearing and moderate debt protection matrices.

Weaknesses

- **Working capital intensive operations**

HEPL's operations are working capital intensive as evident from Gross Current Assets (GCA) of 166 days as on March 31, 2019 (provisional) as against 70 days as on March 31, 2018. The receivable days are reported at 47 days in FY2019 as against 31 days in FY2018. HEPL's inventory days stood at 46 days in FY2019 (provisional) and 5 days in FY2018. HEPL's creditors are high at about 142 days as on March 31, 2019 (provisional) (FY2018:94 days). Intensive working capital operations has led to 83% utilisation of over draft limits over the past twelve months ended March, 2019. Acuité believes that the operations are expected to be working capital intensive and working capital limits shall be utilised to higher level over the medium term.

• **Modest Scale and tender based nature of Operations**

HEPL's scale of operations is modest with revenue of Rs. 11.08 crore in FY19 (Provisional) compared to Rs. 12.97 crore in FY18. Going forward, the scale of operation is likely to remain modest with confirmed orders in hand of Rs. 137.00 crore as on October 2019. The revenues of HEPL are generated through tender based orders floated by Public Works department coupled with the increasing competition in the industry. The revenue has direct impact on successful bidding of order and competitive pricing provided to surpass competition from other players in the industry. The firm operates in highly competitive and fragmented industry which limits its bargaining power. Acuité believes that the firm's ability to scale up operations will remain crucial to maintain a stable credit risk profile.

Key Rating Sensitivity Factors

- Substantial growth in revenue backed by timely completion of projects.
- Deterioration in working capital.

Material Covenants

None

Liquidity Position: Stretched

Liquidity of HEPL is stretched marked by high utilisation of bank limits. HEPL's operations are working capital intensive as marked by gross current asset (GCA) days of 166 in FY2019 (Provisional). Further, HEPL's bank limits are fully utilised and with higher order book expectation KIPL requires higher bank limits to support for the same. However, HIPL reported cash accruals in the range of Rs.0.40-0.88 crore over the past two years through FY2019 (provisional) against which there are repayment obligations of Rs. Nil crore. Cash accruals are estimated to remain around Rs. 1.14 – 2.92 crore during 2020-22, while its repayment obligations are expected to be nil; which gives adequate comfort for the incremental working capital requirements. Acuité believes that though cash accruals are adequate, however, incremental working capital requirement for the growing size of operations are expected to absorb the cushion in the liquidity and liquidity is expected to continue at stretched levels.

Outlook: Stable

Acuité believes that HEPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deteriorating in liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	11.08	12.97	7.44
EBITDA	Rs. Cr.	1.50	1.27	0.74
PAT	Rs. Cr.	0.55	0.61	0.24
EBITDA Margin	(%)	13.57	9.79	9.91
PAT Margin	(%)	4.93	4.74	3.21
ROCE	(%)	20.68	30.63	33.58
Total Debt/Tangible Net Worth	Times	1.80	1.63	2.01
PBDIT/Interest	Times	3.17	3.52	2.80
Total Debt/PBDIT	Times	2.95	1.81	3.17
Gross Current Assets (Days)	Days	166	70	1502

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Over Draft	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE B+ / Stable (Assigned)
Proposed Over Draft	Not Applicable	Not Applicable	Not Applicable	15.80	ACUITE B+ / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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