

Press Release

High End Quality Constructions Private Limited

August 26, 2021



Rating Reaffirmed

Total Bank Facilities Rated	Rs. 25.00 crore
Long Term Rating	ACUITE B-/Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 25.00 crore bank facilities of High-End Quality Construction Private Limited. The outlook is '**Stable**'.

The ratings reflect extensive experience of its promoters, modest order book position providing revenue visibility and healthy debt protection metrics. These strengths are partly offset by HEQCPL's below average financial risk profile, working capital intensive nature of operations and stretched liquidity position.

About the company

Chennai based High End Quality Constructions Private Limited (HEPL) was established in the year 2008 and the company 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 considered the standalone business and financial risk profiles of High-End Quality Constructions Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The management of the company Mr. Sivakumar K and Mr. Sudha T possesses around two decades of experience in civil construction industry. The long-standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers (e.g.- PWD-Puducherry., Department of Atomic Energy, Kalpakkam, Southern Railways, ONGC) across Tamilnadu. Acuité derives comfort from the long experience of the management and believes this will benefit the firm going forward, resulting in steady growth in the scale of operations.

Weaknesses

- **Below average financial risk profile**

HEQCPL has below average financial risk profile is marked by weak albeit improving net worth, high gearing and healthy debt protection metrics. The net worth of the firm has improved to Rs 3.13 crore as on 31st March 2021(provisional) as against Rs. 2.82 crore as on 31st March 2020 mainly on account of retention of profits. The gearing stands high at 2.50 times as on 31st March 2021(provisional), as against 2.88 times as on 31st March 2020. The total debt of Rs.7.83 crore comprises of long-term debt of Rs. 0.24 crore, short term debt of Rs. 5.85 crore, unsecured loans from body corporates, friends and relatives of Rs. 1.39 crore and current maturing obligations of Rs. 0.35 crore as on 31st March 2021(provisional). The TOL/TNW is high at 8.48 times as on 31st March 2021(provisional), as against 9.35 times as on March 31,

2020. The healthy debt protection metrics of the firm is marked by Interest Coverage Ratio at 1.59 times and Debt Service coverage ratio at 1.55 times as on 31st March, 2021 (prov). Acuité believes that going forward the financial risk profile of the firm will improve backed by steady accruals and no major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital-intensive nature of operations of the firm is marked by high Gross Current Asset Days of 413 days as on March 31, 2021(provisional) as against 428 days as on March 31, 2020. The high GCA days are mainly on account of high debtors' days of 259 days as on March 31, 2021(prov) as against 275 days as on March 31, 2020. However, the inventory days stood comfortable at 15 days as on March 31, 2021(provisional) as against 16 days as on March 31, 2020. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from the high debtor level and low inventory levels over the medium term.

- **Competitive industry**

The civil construction sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. However, this risk is mitigated to an extent on account of the experience of the management and well-established presence in its terrain

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle
- Reduction in order flow

Material Covenants

None

Liquidity position: Stretched

The firm's liquidity is stretched marked by cash accruals of Rs.0.66 crore as compared to high maturing debt obligation of Rs. 0.35 crore over the same period. The fund-based limit remains fully utilized over the twelve months ended June 2021. Further, the working capital-intensive nature of the operation of the firm is marked by high Gross Current Asset days of 413 days as on March 31, 2021 (provisional) as against 428 days as on March 31, 2020. However, the current ratio of the firm stands moderate at 1.11 times as on March 31, 2021(prov). The firm has cash and bank balances of Rs.0.03 crore as on March 31, 2021(prov). Acuité believes that going forward the liquidity is likely to remain at same level due to high debt obligations.

Outlook: Stable

ACUITE believes the outlook on HEQCL rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience in the mining industry. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of company registers significant decline in cash accruals or continues stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity Financials

Particulars	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	24.00	22.47
PAT	Rs. Cr.	0.33	0.24
PAT Margin	(%)	1.39	1.05
Total Debt/Tangible Net Worth	Times	2.49	2.88
PBDIT/Interest	Times	1.62	1.70

Status of non-cooperation with previous CRA

Not Applicable

Any other information:

Acuite has received the latest No Default Statement (NDS) from the rated entity.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Crore)	
25-Feb-2021	Overdraft	Long term	4.20	ACUITE B Downgraded Issuer not co-operating*
	Proposed Overdraft	Long term	15.80	ACUITE B Downgraded Issuer not co-operating*
	Bank Guarantee	Short term	5.00	ACUITE A4 Issuer not co-operating*
02-Dec-2019	Overdraft	Long term	4.20	ACUITE B+ / Stable (Assigned)
	Proposed Overdraft	Long term	15.80	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short term	5.00	ACUITE A4 (Assigned)

*Annexure—Details of instruments rated

Instrument Information

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE B-/Stable (Reaffirmed)
Proposed Long Term facility	Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	15.80	ACUITE B-/Stable (Reaffirmed)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022- 67141160 rating.desk@acuite.in
Shubhaditya Sarkar Analyst- Rating Operations Tel: 033-6620 1212 shubhaditya.sarkar@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.