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Press Release

Hill Brow Metallics and Construction Private Limited (HBMCPL)

07 March, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	SMERA BBB/Stable
Short Term Rating	SMERA A3+

**Refer annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB' (read as SMERA triple B)**and short term rating of **'SMERA A3+' (read as SMERA A three plus)**on the Rs. 40.00 crore bank facilities of Hill Brow Metallics and Construction Private Limited (HBMCPL). The outlook is **'Stable'.**

About the Group

Sunil Kumar Agrawal LLP and Hill Brow Metallics and Construction Private Limited (Hill Brow) together referred to as the SKA group are engaged in civil construction. The group is a Class I contractor A – 5 category.

SKAL a Raipur-based partnership firm was established in 2002 by Mr. Sunil Kumar Agrawal and his family. The firmundertakes construction of roads bridges, maintenance of roads for state government departmentsunder the (PMGSY) Pradhan Mantri Gram Sadak Yojna, (MMGSY) Mukhya Mantri Gram Sadak Yojana.

Hill-Brow, incorporated in 2007 by Mr Sunil Kumar Agarwal and his family, undertakes contracts awarded under the state as well central sponsored schemes such as PMGSY and Mukhya Mantri Gram Sadak Yojana.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

The group was incorporated in 2002 by Mr. Sunil Kumar Agrawal and family. It undertakes civil work - construction of roads and maintenance for state government departmentsunder various government schemes. The day-to day operations are led by Mr. Sunil Kumar Agrawal. The promoters have more than a decade of experience in the construction industry.
SMERA believes that the group will sustain its existing business profile on the back of its experienced management and established track record of operations in the industry.

Moderate financial risk profile

The financial risk profile is marked by moderate coverage indicators and healthy net worth. The tangible net worth stood at Rs. 76.59 crore as on 31 March, 2017 as against Rs. 70.63 crore as on 31 March, 2016. The gearing stood at 0.15 times as on 31 March 2017 as against 0.22 times crores as on 31 March, 2016. The Interest Coverage ratio is healthy at 4.62 times in FY2017 as against 4.75 times in FY2016. The Total Outside Liabilities to Tangible Net Worth stood at 0.50 times as on 31 March, 2017as against 0.52 times as on 31 March, 2016. The DSCR stood at 2.50 times in FY2017 and 2.30 times in FY2016. The Net Cash Accruals declined toRs. 9.26 crore in FY2017 as against Rs. 13.16 crore in FY2016.

SMERA believes that the group will sustain its moderate financial risk profile in the absence of debt funded capex and sufficient net cash accruals.

Healthy order book position

SKA group has healthy unexecuted order book position of around Rs. 675 crore as on 31 January, 2018. This gives future visibility of revenues over the near to medium term. The orders are from Chhattisgarh Road and Development Corporation Limited (CGRDCL), Public Work Department (PWD), National Highways and State Highways and need to be executed in the next three financial years. SMERA believes that the group will register healthy growth in revenue on the back of healthy order book position over the near to medium term.

Efficient working capital cycle with comfortable liquidity

SKA group has comfortable working capital cycle marked bylow inventory days of 10 in FY2017 as against 8 in FY2016. The low inventory is owing to the purchase of raw material whenever required. The debtor days are comfortable at 14 in FY2017 as against 20 days in FY2016. The receivables are from government entities. The low debtors are due to the payment days of 30. The group gets extended credit period from suppliers of around 60 to 80 days which moderates the working capital utilisation. The average bank limit utilisation stood at 98 percent for the last six months ended January 2018. The group has healthy cash and bank balances of Rs. 10.31 crore in FY2017 as against Rs. 5.24 crore in FY2016.

SMERA believes that the ability of the company to maintain its working capital cycle and liquidity would be a key rating sensitivity.

Weaknesses

Declining revenue trend and uneven profitability margins

The revenues have been continuously declining during FY2015 to FY2017. The revenue stood at Rs.125.38 crore in FY2017 as against Rs.156.66 crore in FY2016 and Rs. 206.98 crore in FY2015. The decline is majorly on account of unhealthy competition and fewer orders executed between FY2016 to FY2017. However, the group booked revenue of Rs. ~177 crore for April to January 2018 (Provisional).

The profitability margins of the group have been unevenduring FY2015 to FY2017. The EBITDA margins stood at 9.51 percent in FY2017 as against 8.84 percent in FY2016 and 8.84 percent in FY2015. This is due to fluctuation in employee cost and labour charges. The PAT margins have also been uneven during the periodon account of fluctuation in interest cost and other non-operating income.

Competitive and fragmented industry

The civil construction sector is marked by the presence of several mid to big sized players. The firm faces intense competition from other players. Risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, the risk is mitigated to an extent as the management has been in the business for 15 years.

Analytical Approach

SMERA has considered the consolidated business and financial risk profile of Sunil Kumar Agrawal LLP and Hill Brow Metallics and Construction Private Limited to arrive at the rating.

Applicable Criteria

- Default Recognition -https://www.smera.in/criteria-default.htm
- Manufacturing Entities -https://www.smera.in/criteria-manufacturing.htm
- Consolidation Entities -https://www.smera.in/criteria-consolidation.htm
- Financial Ratios And Adjustments -https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Outlook: Stable

SMERA believes that the SKA group will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics. Conversely the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the rated entity – key financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	125.38	156.66	206.98
EBITDA	Rs. Cr.	11.93	13.85	17.55
PAT	Rs. Cr.	6.18	9.57	10.73
EBITDA Margin	(%)	9.51	8.84	8.48
PAT Margin	(%)	4.93	6.11	5.18
ROCE	(%)	13.94	19.91	48.90
Total Debt/Tangible Net Worth	Times	0.15	0.22	0.44
PBDIT/Interest	Times	4.62	4.75	4.67
Total Debt/PBDIT	Times	0.77	0.82	0.98
Gross Current Assets (Days)	Days	193	122	86

Status of non-cooperation with previous CRA (if applicable): Ind-Ra Ratings vide its press release dated May 18, 2017 has stated, "India Ratings and Research (Ind-Ra) has migrated Hill Brow Metallic and Construction Private Limited's (HBMCPL) Long-Term Issuer Rating to the non-cooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The ratings will now appear as 'IND BBB-(ISSUER NOT COOPERATING)' on the agency's website."

Any other information: None

Rating History for the last three years:NA

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BBB/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BBB/Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3+ (Assigned)

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ABOUT SMERA

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