

Press Release
Highway Engineering Consultants

October 29, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.30.00 crore bank facilities of Highway Engineering Consultants. The outlook is '**Stable**'.

Bhopal Based Highway Engineering Consultants (HEC) is a partnership firm established in 2007 by partners Mr. Satya Narayan Malviya, Ms. Karuna Malviya and Ms. Tapsya Malviya. The firm is engaged in offering engineering consultancy services to the infrastructure sector such as project management consultancy, feasibility studies, construction super vision, quality assurance

Analytical Approach

Acuité has consolidated business and financial risk profiles of L N Malviya Infraprojects Private Limited (LMIPL) & Highway Engineering Consultants (HEC) hereinafter referred to as Malviya Group. The consolidation is on account of similarity in the line of business strong operational and financial linkages.

Key Rating Drivers

Strengths

• Experienced management and established presence in the infrastructure consulting sector

The promoter, Mr. Laxmi Malviya (Civil Engineer) has an experience of more than 15 years in consulting business. The group has pan India presence and has executed projects for various Government agencies such as National Highways Authority of India (NHAI), Ministry of Road Transport and Highways (MORTH), Central Public Works Department (CPWD), Border Roads Organisation (BRO), Indian Railways among others.

Acuité believes that promoter's extensive experience in the industry will benefit the group in medium term.

• Healthy order book position

The group registered an operating income of Rs.125.45 crore in FY2018 (Provisional) as against Rs.82.64 crore in FY2017. Moreover, the group has an unexecuted order book position of Rs.509.23 crore as on 10 September 2018 which gives the revenue visibility over the medium term.

• Above average financial risk profile

The group has above average financial risk profile marked by tangible net worth of Rs.38.53 crore as on 31 March, 2018 (Provisional) as against Rs.20.59 crore as on 31 March, 2017. The gearing stood healthy at 0.03 times as on 31 March 2018 (Provisional) as against 0.11 times as on 31 March, 2017. The debt of Rs.1.28 crore mainly consists of term loans as on 31 March 2018 (Provisional). Interest Coverage Ratio (ICR) stood healthy on account of low debt requirements. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.23 times as on 31 March, 2018 (Provisional) as against 1.88 times as on 31 March, 2017. Going forward, Acuité expects the firm to maintain its financial risk profile in absence of major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The group has working capital intensive operations due to requirement of various deposits required mainly for bank guarantee. The group's gross current assets stood at 201 days in FY2018 (Provisional) as against 197 days in FY2017 while the debtor days stood in the range of 70-100 days during FY2015 to FY2018. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Off balance sheet exposure in the form of performance bank guarantees**

The group gives performance bank guarantee for the projects it undertakes such as supervision, quality assurance, preparation of Detailed Project Report (DPR) among others which is normally ranges from 5 percent to 10 percent of the total contract value. The outstanding bank guarantee position of the group stood at Rs.30.50 crore as on 15 October 2018 as against net worth of Rs.38.53 crore as on 31 March, 2018 (Provisional).

- **Competitive industry**

The group is engaged as consultant for infrastructure sector. The particular sector is marked by the presence of several other players. The group faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. Further the group's performance is susceptible to cyclical in construction/infrastructure segment. However, this risk is mitigated to an extent on account of extensive experience of the management.

Outlook: Stable

Acuité believes Malviya group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	125.45	82.64	59.54
EBITDA	Rs. Cr.	24.41	13.98	6.78
PAT	Rs. Cr.	17.80	9.74	4.39
EBITDA Margin	(%)	19.46	16.92	11.38
PAT Margin	(%)	14.19	11.78	7.38
ROCE	(%)	74.31	77.71	83.59
Total Debt/Tangible Net Worth	Times	0.03	0.11	0.08
PBDIT/Interest	Times	16.95	15.53	10.51
Total Debt/PBDIT	Times	0.05	0.16	0.13
Gross Current Assets (Days)	Days	187	178	151

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

CRISIL, vide its press release dated August 16, 2018 had denoted the rating of HIGHWAY ENGINEERING CONSULTANTS as 'CRISIL BB/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities In The Service Sector - <http://acuite.in/view-rating-criteria-8.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB-/Stable
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE BBB-/Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE A3
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	23.80	ACUITE A3

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About Acuité Ratings & Research:

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