

Press Release

Highway Engineering Consultants

October 04, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 50.00 Cr. (Enhanced from Rs.30 crore)
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from **ACUITE BBB-** (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 50.00 crore bank facilities of Highway Engineering Consultants (HEC). The outlook is '**Stable**'.

The rating upgrade reflects improvement in operating performance, which is expected to be sustained in the medium term. The capital structure of the group continues to remain healthy coupled with sound liquidity position. The rating continues to draw comfort from established order book position and healthy profitability margins.

Bhopal-based, Highway Engineering Consultants 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 supervision and quality assurance.

Analytical Approach

Acuité has consolidated the risk profiles of the group companies due to significant business and financial synergies within the group comprising L N Malviya Infraprojects Private Limited and Highway Engineering Consultants. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established presence in the infrastructure consulting sector**

The promoter, Mr. Laxmi Malviya (Civil Engineer), has a professional experience of more than 15 years in consulting business. The group, over a period of time, has developed its execution capabilities across the entire value chain of infrastructure consulting. It has executed projects for various Government agencies such as NHAI (National Highway Authority India), MORTH (Ministry of Road Transport and Highways), state PWD (Public Work Department), MPRDC (Madhya Pradesh Road Development Corporation Ltd), MSRDC (Maharashtra State Road Development Corporation Ltd) and Local municipal bodies.

Acuité believes that the group's operations will benefit from the promoter's extensive experience and track record of operations over the medium term.

- **Healthy order book position**

The group registered an operating income of Rs. 159.94 crore in FY2019 (Provisional) as against Rs. 124.84 crore in FY2018. Moreover, the group has an unexecuted order book position of Rs. ~483 crore as on August 2019, 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. 60.71 crore as on 31 March, 2019 (Provisional) as against Rs. 41.26 crore as on 31 March, 2018. The gearing stood low at 0.01 times as on 31 March 2019 (Provisional) as against 0.03 times as on 31 March, 2018. The debt of Rs.0.76 crore mainly consists of term loans of Rs.0.60 crore and working capital borrowings of Rs. 0.16 crore as on 31 March 2018. Interest Coverage Ratio (ICR) stood healthy on account of low debt requirements. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.89 times as on 31st March, 2019 (Prov.) as against 1.18 times as on 31 March, 2018. Going forward, Acuité expects the firm to maintain its financial

risk profile in absence of major debt funded capex plans.

Weaknesses

- 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 per cent of the total contract value. The outstanding bank guarantee position of the group stood at Rs. 52.86 crore as on March 2019 as against net worth of Rs. 60.71 crore as on 31 March, 2019 (Provisional).

- Competitive and fragmented 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. However, this risk is mitigated to an extent on account of extensive experience of the management.

Rating Sensitivities

The group's ability to improve the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile are the key rating sensitivity.

Material Covenants

None

Liquidity Profile- Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of ~Rs. 10.87 crore – Rs. 22.55 crore during the last three years through 2017-2019, while there maturing debt obligations in range of Rs. 0.60 crore-Rs. 1.13 crore over the same period. The cash accruals are estimated to remain at around Rs. 27.40-35.61 crore during 2020-22. The group's working capital cycle is efficiently managed marked by Gross Current Asset (GCA) days of 125 in FY 2019. The current ratio stood moderate at 1.72 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against no major debt obligation.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company 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 company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	158.96	124.23	85.73
EBITDA	Rs. Cr.	28.87	28.82	13.63
PAT	Rs. Cr.	21.23	22.32	9.74
EBITDA Margin	(%)	18.16	23.20	15.89
PAT Margin	(%)	13.36	17.96	11.36
ROCE	(%)	54.70	88.38	77.71
Total Debt/Tangible Net Worth	Times	0.01	0.03	0.11
PBDIT/Interest	Times	13.72	28.66	15.53
Total Debt/PBDIT	Times	0.03	0.04	0.16
Gross Current Assets (Days)	Days	125	135	128

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Oct-2018	Cash Credit	Long Term	0.20	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	4.80	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	1.20	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	23.80	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB-/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A3+ (Upgraded from ACUITE A3)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3+ (Upgraded from ACUITE A3)

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About Acuité Ratings & Research:

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