

Press Release

H G Walls

September 29, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.13.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 13.00 crore bank facilities of H G Walls. The outlook is '**Stable**'.

H G Walls (HG) is a proprietary concern, established in the year 2007, Mrs. Roopa Hari Ganesh. It is an architectural engineering company, which acts as a creative engineer for designers and architects. It provides glass and aluminum facade designing and installation services to corporate, commercial and residential clients.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of HG to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters and reputed client base**

HG was established in 2007 and the day to day operations are managed by promoter Mrs. Roopa Hari Ganesh and her husband Mr. Hari Ganesh, who have nearly 2 decades of experience in interior and exterior designing business. Promoter experience and project execution capability enabled the entity to create a strong relationship with prominent customers. It has executed projects several projects for Larsen & Toubro Limited at various locations. HG's revenues are dependent on various projects, regular order flow from its customers has led to an increase in its revenue from Rs 16.93 crores in fiscal 2016 to Rs 40.88 crores in fiscal 2020 (provisional) with a compound annual growth rate (CAGR) is 34.16 %. During the last four years. Further, it is having an unexecuted order book position of about Rs.63.00 crore and anticipating orders about Rs.90 crore that gives revenue visibility in the near and medium term. Acuité believes that healthy unexecuted order book, promoter's established presence in the industry and strong counterparties will sustain and support the firm business profile over the medium term.

Weaknesses

- **Below average financial risk profile**

HG's financial risk profile is below average marked by low networth, leveraged capital structure and moderate debt protection metrics. The net worth of the HG is low at Rs.7.06 crore as on March 31, 2020 (provisional) as against Rs.4.79 crore as on March 31, 2019. Its capital structure is highly leveraged marked by its gearing level at 2.65 times as on March 31,2020 (provisional) as against 3.08 times as on March, 2019. Further, its TOL/TNW is high 3.45 times as on March 31, 2020 (provisional) as against 3.93 times in as on 31 March, 2019. HG's debt protection metrics are comfortable, marked by The NCA/TD and interest coverage ratios for FY 2020 (Provisional) were moderate at 0.09 times and 2.39 times, respectively as against 0.09 times and 2.09 times in FY2019. HG has generated cash accruals of Rs.0.85-1.70 crore during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.0.75-1.00 crore during the same period. The cash accruals of the HG's are estimated to remain around Rs.1.00 crore - Rs. 1.50 crore during 2021-23, while its repayment obligations are estimated to be around Rs.1.00-1.25 crore over the same period. Acuité believes that the financial risk profile of the firm is expected to remain at a similar

level over the medium term on account of no significant capex plans over the medium term.

• Working capital intensive operations

HG's operations are working capital intensive as reflected in its gross current asset of 173-181 days in the past three years ended through FY2020 (provisional). GCA is due to stretch in receivables to 126-172 days during last three years ending through FY2020 (Provisional) this leading to high bank limit utilisation about 100 during last six months ended through July 2020. However, its Inventory is efficiently maintained at 12- 44 days during last three years ending through FY2020 (Provisionals) and credit of 55-77 days received from suppliers during last three years ending through FY2020 (Provisionals). Acuité believes that operations are likely to remain working capital intensive over the medium term, commensurate with an increase in scale.

• Risk of capital withdrawal

HG's constitution as a proprietorship concern is exposed to discrete risks, including the possibility of withdrawal of capital. Moreover, the nature of the constitution partially limits the flexibility to raise the funds vis-à-vis a limited firm.

• Modest scale of operations and susceptibility of operations to slowdown in infrastructure projects

During the last four fiscals, HG's scale of operations remained moderate with a turnover ranging Rs. 17-40 crore though there is an improvement in its revenues. The facade industry is cyclical and linked to the level of activity in the construction sector. Moreover, it exposed to risks related to cyclical in demand and volatility in raw material prices and it faces intense competition from several organised and unorganised players in interior and exterior designing business.

Liquidity Position: Stretched

HG's liquidity position remains stretched as reflected stretched net cash accruals to its maturing debt obligations and full utilisation of working capital limits. HG generated cash accruals of Rs.0.85-1.70 crore during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.0.75-1.00 crore during the same period. The cash accruals of the HG's are estimated to remain around Rs.1.00 crore - Rs. 1.50 crore during 2021-23, while its repayment obligations are estimated to be around Rs.1.00-1.25 crore over the same period. The HG's utilisation of the sanctioned working capital limits averaged at 100% during the 6- month period that ended in July 2020. The Covid-19 pandemic has further exacerbated the liquidity position as the company has not been able to book any revenues or raise any bills, with the slow realisation from debtors in Q1 FY2021.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- further deterioration in the working capital cycle leading to further stress on liquidity

Outlook: Stable

Acuité believes that HG will maintain a 'Stable' outlook in the medium term on account of a long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher than expected growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or larger-than-expected debt-funded capex or significant withdrawal of capital leading to a deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	40.88	39.30
PAT	Rs. Cr.	1.70	1.29
PAT Margin	(%)	4.16	3.28
Total Debt/Tangible Net Worth	Times	2.65	3.08
PBDIT/Interest	Times	2.39	2.09

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Assigned)

*Note: Interchangeability from LC to CCBD to tune of Rs. 1.00 Cr so that CCBD limit upto Rs.9.00 Cr

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About Acuité Ratings & Research:

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