

## Press Release

### Highway Infrastructure Limited

February 02, 2021

#### Rating Assigned



|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs. 78.24 Cr.                            |
| <b>Long Term Rating</b>             | ACUITE BBB/Outlook: Stable<br>(Assigned) |
| <b>Short Term Rating</b>            | ACUITE A2<br>(Assigned)                  |

\* Refer Annexure for details

#### Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.78.24 crore bank facilities of Highway Infrastructure Limited (HIL). The outlook is "**Stable**".

Indore-based HIL was incorporated in 2006 by the Agarwal and Jain family. The company is currently headed by Mr. Anoop Agarwal and Mr. Arun Kumar Jain. HIL is engaged in executing infrastructural construction projects for roads, bridges and buildings etc. Along with another line of business, i.e. real estate project development around the city of Indore with two projects by the name of Newyork City and Highway Karuna Sagar.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profile of HIL to arrive at this rating.

#### Key Rating Drivers

##### Strengths

##### • Experienced promoters and long track record of operations:

HIL is promoted by Mr. Anoop Agarwal and Mr. Arun Kumar Jain. The promoters have a combined experience over 50 years in the construction industry. The top management of the company is aided by an equally experienced second line of management personnel. The company has been able to establish long and healthy relationship with its customers and suppliers owing to the promoter's rich experience and the long track record of operations of over 15 years. Further, HIL has diversified its revenue streams into real estate projects with two outstanding residential projects located around Indore.

HIL has been able to maintain its scale of operations year on year backed by repeated orders by its customers as seen by the turnover of Rs. 99.87 crores as on 31st March 2020 as against Rs. 97.82 crores as on 31st March 2019 and Rs. 94.63 crores as on 31st March 2018. The current year revenues of HIL stood at ~Rs. 42.00 crores till September 2020 with the total outstanding order book position of Rs. 513.84 crores.

Acuite believes HIL will continue to benefit over the medium term from its longstanding association with its key supplier as well as customers.

##### • Moderate Financial risk profile

HIL's financial risk profile is moderate marked by healthy net worth, low gearing levels (debt to equity), moderate total outside liabilities to tangible net worth (TOL/TNW) and healthy coverage indicators. The tangible net worth of the company stood healthy at Rs. 46.34 crores as on 31 March, 2020 as against Rs. 39.65 crores in the previous year. The company has followed a conservative financial policy in the past with its peak gearing levels at 0.85 times as on March 31, 2018. The leverage levels have improved over the years standing at 0.44 times as on March 31, 2020 on account of repayment of long term debt. Albeit, the TOL/TNW levels are moderately high at around 1.36 times as on 31st March 2020, the same is expected to improve to around 0.94 times as on March 31, 2023 on account of no foreseeable long term debts to aid the capital expenditure in the coming years.

The Debt protection metrics of the company have remained healthy marked by the interest coverage ratio 4.13 times and the debt service coverage ratio of 1.67 times as on 31<sup>st</sup> March 2020. Further, the net cash accruals to total debt (NCA/TD) stood at 0.47 times for FY2020 as against 0.35 times in the previous year. The company reported net cash accruals (NCA) of Rs. 9.57 crore in FY2020 against repayment obligations of Rs. 4.26 crores in the previous year.

Acuite believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals and no debt-funded capex in near to medium term.

## Weaknesses

### • Working Capital Intensive Operations:

Operations of HIL are working capital intensive in nature as reflected by the Gross Current Asset (GCA) of 241 days in FY2020 as against 226 days in FY2019. The GCA are dominated by the high inventory levels maintained by the company at over 4 months as on 31<sup>st</sup> March 2020 (~138 days) as against 114 days in the last year. The debtor collection period of the company stood at 69 days in FY2020 as against 91 days in the previous year marking an improvement. Further, the creditor payback period stands at 83 days on 31<sup>st</sup> March 2020. The current ratio of the company stood average at 1.23 times as on 31<sup>st</sup> March 2020 as against 1.09 times in the previous year.

### • Downturn in Infrastructure and real industry by the advent of the pandemic:

The on set of the Covid-19 pandemic has resulted in an unprecedented slowdown in the India economy with the Infrastructure and real estate sectors being one of the worst hit. As per the estimates the overall demand in real estate sector is expected to decline by 25 per cent in 2020 as compared to 2019 and the Indian infrastructure sector is sitting on an unsold inventory level of ~Rs. 3,70,000 crores. Additionally, the lockdowns have impacted the functioning of infrastructure structure equally with major projects being delayed and halt in the payments due to surge in the industry debtor levels. HIL is currently engaged in the execution of two real estate projects in the vicinity of Indore (Madhya Pradesh) and therefore the timely completion of the projects will remain crucial. Further Acuite takes the note that the company also faces geographical customer concentration risk with almost all of the clientele of the company is concentrated around the Indore region.

## Rating Sensitivity Factor

- Timely execution of the real estate projects.
- Improvement in the working capital operations

## Material Covenants

None

## Outlook: Stable

Acuite believes that HIL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced promoters. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

## Liquidity Position: Adequate

HIL has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 9.57 crore for FY2020 against debt obligations of Rs. 0.84 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 9.88 crore to Rs. 10.97 crore during 2021-23 against no repayment obligations. HIL's working capital operations are intensive marked by Gross Current Asset (GCA) days of 241 days for FY2020. The company maintains unencumbered cash and bank balances of Rs. 0.05 crore as on 31 March 2020. The current ratio stands at 1.23 times as on 31 March 2020. 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 debt repayments over the medium term.

### About the Rated Entity - Key Financials

|                               | Unit    | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income              | Rs. Cr. | 99.87         | 97.82         |
| PAT                           | Rs. Cr. | 6.69          | 5.03          |
| PAT Margin                    | (%)     | 6.70          | 5.14          |
| Total Debt/Tangible Net Worth | Times   | 0.44          | 0.61          |
| PBDIT/Interest                | Times   | 4.13          | 3.78          |

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

HIL's rating was flagged off as Issuer not cooperating with CRISIL, through its rating rationale dated August 24<sup>th</sup>, 2020. After that CRISIL has again shared a rating advisory on 03 September, 2020 stating that company has now shared the information request and is cooperative.

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in infrastructure sector - <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 (Up to 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 | 10.00                       | ACUITE BBB/ Stable (Assigned) |
| Cash Credit               | Not Applicable   | Not Applicable | Not Applicable | 4.00                        | ACUITE BBB/ Stable (Assigned) |
| Cash Credit               | Not Applicable   | Not Applicable | Not Applicable | 0.10                        | ACUITE BBB/ Stable (Assigned) |
| Working Capital Term Loan | Not Applicable   | Not Applicable | Not Applicable | 2.11                        | ACUITE BBB/ Stable (Assigned) |
| Working Capital Term Loan | Not Applicable   | Not Applicable | Not Applicable | 0.95                        | ACUITE BBB/ Stable (Assigned) |
| Working Capital Term Loan | Not Applicable   | Not Applicable | Not Applicable | 0.68                        | ACUITE BBB/ Stable (Assigned) |
| Bank Guarantee            | Not Applicable   | Not Applicable | Not Applicable | 15.50                       | ACUITE A2 (Assigned)          |
| Bank Guarantee*           | Not Applicable   | Not Applicable | Not Applicable | 25.00                       | ACUITE A2 (Assigned)          |
| Bank Guarantee**          | Not Applicable   | Not Applicable | Not Applicable | 19.90                       | ACUITE A2 (Assigned)          |

\*Cash credit amounted to Rs.1.00 as a sublimit of the bank guarantee.

\*\*Cash credit amounted to Rs.5.00 as a sublimit of the bank guarantee.

## Contacts

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|--|--|
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### 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.

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