

Press Release

H V Constructions

February 23, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	ACUITE BB Stable Assigned	-
Bank Loan Ratings	13.50	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	15.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE BB (read as ACUITE Double B)** and short term rating of **ACUITE A4+ (read as ACUITE A four plus)** on the Rs. 15 Cr bank facilities of **H V Constructions**. The outlook is 'Stable'.

Rationale for Rating Assigned

The rating assigned takes into account the experienced management and established track record of operations of H V Constructions along with moderate financial risk profile. However, the above mentioned strengths are partially offset by working capital intensive nature of operations and poor liquidity position of H V Constructions. Going forward significant improvement in the scale of operations while maintaining profitability and reduction in working capital cycle will be a key monitorable.

About the Company

Mumbai based H V Constructions was incorporated as a proprietorship in 1996 by Mr. Vastupal Lakhani. It was converted into a partnership firm in 2014. The partners are Mr. Vastupal Lakhani and Mrs. Deepika Mehta. The firm is also managed by Mr. Hiten Lakhani. The firm is engaged in construction of bridges, roads, gardens etc.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of the company.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations

H V Constructions started operations in 1996 as a proprietorship to construct bridges, roads, gardens etc. The firm is currently managed by Mr. Hiten Lakhani and Mrs. Deepika Mehta,

each of whom have a decade of experience in the same line of business. The partners are involved in day to day operations of the firm and are ably supported by a strong line of mid-level managers. H V Construction' operating income stood at Rs. 42.83 Cr in FY22 as against Rs. 52.31 Cr in FY21 and Rs. 55.63 in FY20. In 9MFY23, the firm has achieved approx.. Rs. 38 Cr.

Acuité believes the experience of the directors and its established track record of operations will help the company in maintaining their business risk profile over the medium term.

- **Moderate Financial Risk Profile**

H V Constructions has a moderate financial risk profile marked by moderate network , low gearing and comfortable coverage indicators. The tangible network stood at Rs. 14.60 Cr as on March 31,2022 as against Rs. 13 Cr as on March 31,2021 and Rs. 11.64 Cr as on March 31,2020. The increase in the network in FY22 is due to the accretion of profits to reserves. The firm follows a conservative financial policy reflected through gearing of 0.83 times as on 31 March, 2022 as against 0.64 times as on 31 March, 2021 and 0.99 times as on 31 March, 2020. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 3.46 times as on March 31, 2022 as against 2.47 times as on March 31, 2021 and 3.11 times as on March 31, 2020 .The increase is due to increase in other current liabilities which majorly includes tender quoting expenses. The coverage ratios of the company remained comfortable with Interest Coverage Ratio (ICR) at 3.06 times in FY22 as against 3.51 times in FY21 and 3.05 times in FY20. The Debt Service Coverage Ratio (DSCR) stood at 3.06 times in FY22 as against 3.51 times in FY21 and 3.05 times in FY20.

Acuité expects the financial risk profile to remain moderate over the near to medium term with no major debt-funded capex.

Weaknesses

- **Working Capital Intensive Nature of Operations**

H V Constructions has working capital intensive nature of operations marked by high GCA days of 470 days as on March 31,2022 as against 252 days as on March 31,2021 and 259 days as on March 31,2020. The inventory days stood at 6 days in FY22 as against 16 days in FY21 and 34 days in FY20. The debtor days stood at 26 days in FY22 as against 13 days in FY21 and 54 days in FY20. The firm derives its working capital support majorly from its creditors .The creditor days stood at 337 days in FY22 as against 229 days in FY21 and 519 days in FY20. The average utilization of the fund based bank limits of the company remained at around 30-40 percent for last three months period ended December' 22.

Acuité believes that the company's ability to maintain its working capital efficiently will remain a key rating sensitivity.

- **Tender based business**

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The firm has to do tendering on competitive prices; this may affect the profitability of the firm. This has resulted in fluctuating operating profit margins.

- **Inherent risk of capital withdrawal in a partnership firm**

The Firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Improvement in scale of operations and profitability while maintaining the capital

structure.

- Ability to reduce elongation in working capital cycle will be key a monitorable.
- Withdrawal of capital

Material covenants

None

Liquidity Position

Adequate

The firm has adequate liquidity position marked by net cash accruals of cash accruals of Rs. 2.35 Cr. in FY22 and Rs. 2.77 Cr. in FY21 against negligible maturing debt obligations over the same period. The cash accruals of the firm are estimated to remain around around Rs.2-3 crore during 2023-24 period against maturing debt obligations of around Rs. 0.1-0.3 Cr. . The firm has working capital intensive nature of operations marked by GCA days of 470 days as on March 31, 2022. The current ratio of the firm stood at 1.62 times as on March 31, 2022. The firm derives its working capital support majorly from its creditors. The average utilization of the fund based bank limits of the firm remained at around 30-40 percent for last three months period ended December' 22 and that of non-fund based limits remained at around 50-60 percent for last three months period ended December' 22. Also, the firm maintained low unencumbered cash and bank balances of Rs. 0.18 Cr as on March 31, 2022 . The current ratio of the firm stood at 1.63 times as on March 31, 2022.

Outlook: Stable

Acuité believes that H V Construction will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	42.83	52.31
PAT	Rs. Cr.	2.16	2.57
PAT Margin	(%)	5.03	4.91
Total Debt/Tangible Net Worth	Times	0.83	0.64
PBDIT/Interest	Times	3.06	3.51

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Abhyudaya Cooperative Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	13.50	ACUITE A4+ Assigned
Abhyudaya Cooperative Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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