

Press Release

Hetvi Construction LLP

March 01, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on Rs. 50 crore bank loan facilities of Hetvi Constructions LLP (HCL). The outlook is '**Stable**'

Rationale for rating assigned

The rating assigned draws comfort from the sustained growth in scale of operations over the three years ending FY22. The operating revenue of the firm improved at a CAGR of 78.59 percent through 3 years ending FY22 on account of improved execution of orders. The operating income of the firm stood at Rs. 216.16 crore in FY22 as against 108.50 crore in FY21 and Rs. 37.95 crore in FY20. The rating also factors in the healthy order book position of the firm and adequate liquidity position reflected in the company's moderate reliance on working capital limits. Such strengths are partially offset by the firm's dependence on receipt of subcontracts, below average financial risk profile and significant geographical concentration in its order book.

About the Company

Incorporated in 2017, Hetvi Construction LLP (HCL), is an EPC Contractor based out of Gujarat and is engaged in water supply, irrigation and drainage projects. The firm takes up subcontracts for such water supply, drainage and irrigation projects. Currently, the firm is taking up subcontracts for projects under the Rajasthan Urban Infrastructure Development Project (RUIDP) in Kota and Water supply projects for State Water Sanitation Mission (SWSM) from the water supply department in Uttar Pradesh. The firm is promoted by Mr. Hitesh Bhuva, Mr. Jignesh Bhuva and Mr. Tarang Savaliya.

Analytical Approach

Acuite has considered a standalone approach to arrive at the rating of Hetvi Constructions LLP (HCL)

Key Rating Drivers

Strengths

Extensive experience of the promoters and reputed counterparties

HCL is based out of Gujarat and was incorporated in the year 2017 reflecting a track record of operations of over 5 years. The firm is promoted by Mr. Hitesh Bhuvra, Mr. Jignesh Bhuvra and Mr. Tarang Savaliya who have over a decade of experience in the civil construction industry. With the help of the promoters the firm has been able to receive subcontracts for water supply, irrigation and drainage projects from reputed contractors like Dineshchandra R. Agrawal Infracon Private Limited, Power Mech Projects Limited and GVPR Industries Limited. Acuité believes that HCL will benefit from the experience of its promoters over the medium term.

Improving business risk profile coupled with healthy order book position

HCL takes up subcontracts for water supply irrigation and drainage projects in the state of Rajasthan and Uttar Pradesh. During FY20 and FY21 the firm has received subcontracts for drainage projects of RUDIP of Rs. 641 crore in Kota Rajasthan. The operating revenue of the firm improved at a CAGR of 78.59 percent through 3 years ending FY22. The operating income of the firm stood at Rs. 216.16 crore in FY22 as against 108.50 crore in FY21 and Rs. 37.95 crore in FY20. Such improvement in operating income comes at the back of healthy subcontracts received for RUDIP projects.

Further, the firm has also received subcontracts for water supply project in Uttar Pradesh under the State Water Sanitation Mission. The firm under this contract is responsible for setting up water tanks, building solar panel for the water tanks and laying pipes and taps in households. The total order received by the firm under this mission on various dates total to Rs. 4,800 crore. However, such contracts are drawn up for a total of 2,803 villages. The firm needs to submit a detailed project report (DPR) for smaller number of villages covered under the contract and a cover agreement is drawn up on approval of the DPR. As on date, cover agreement for 337 villages are drawn up with a value of Rs. 1,011 crore.

Operating profitability of the company has improved over the last three years on account of increase in scale of operations. The operating profit margin of the company stood at 9.21 percent in FY22 as against 5.76 percent in FY21 and 6.34 percent in FY22. PAT margins of the company also improved and stood at 6.63 percent in FY22 as against 4.30 percent in FY21 and 4.60 percent in FY20.

Acuité believes that the operating performance of the firm is likely to improve over near to medium term on account of the company's healthy order book position.

Weaknesses

Intensive working capital operations

The working capital operations of the firm are intensive marked by GCA days of 277 days in FY22 as against 300 days in FY21 and 508 days in FY20. The GCA days of the firm are driven by inventory days and other current assets. The inventory of the firm includes work in progress for the projects in Kota and Uttar Pradesh. Inventory pile up has been seen during the last three years on account of increased orders and execution. The company expects to raise the final bill for the Kota project by March 2023 and hence inventory relating to such project will be cleared in the medium term. Inventory holding period of the company stood at 168 days in FY22 as against 117 days in FY21 and 182 days in FY20. The other current assets majorly includes retention money with the contractors. Retention money of approximately 5% is held back and released at the time of final bill payment. Bills are raised to the main contractor basis the percentage of work completed. Debtor collection period of the company improved at 35 days in FY22 as against 87 days in FY21 and 114 days in FY20. The company's reliance on bank limits remains high with fully utilized fund based bank limits for 6 months ended December 2022. Further, non fund based bank limits remained utilized at 66% as on December 2022.

Acuité believes that the ability of the firm to manage its working capital operations will remain a key rating sensitivity over the medium term.

Below average financial risk profile

The financial risk profile of the company remains below average with below average networth, high gearing and healthy debt protection metrics. The tangible Networth of the firm remained below average with Networth of Rs. 18.65 crore as on March 31, 2022 as against Rs. 8.04 crore as on March 31, 2021 and Rs. 5.29 crore as on March 31, 2020. Increase in Networth

is on account of accretion of profits to reserves. The total debt of the firm stood at Rs. 80.38 crore as on March 31, 2022 as against Rs. 28.01 crore as on March 31, 2021 and Rs. 18.01 crore as on March 2020. The debt profile of the firm comprises of 0.87 crore of long term vehicle loans, Rs. 38.65 crore of short term loans and Rs. 40.86 crore of interest bearing unsecured loans. The management follows an aggressive financial policy reflected by peak Gearing (total debt to equity) of the firm at 4.31 times as on March 31, 2022 as against 3.49 times as on March 31, 2021 and 3.40 as on March 2020. TOL/TNW (total outside liabilities/Tangible networth) of the firm stood at 8.50 times as on March 31, 2022 as against 10.47 times as on March 2021 and 9.61 times as on March 31, 2020. The debt protection metrics of the firm remains healthy marked by Debt service coverage ratio (DSCR) of 3.66 times for FY22 as against 3.90 times for FY21 and 6.19 times for FY20. Interest coverage ratio of the company stood at 3.95 times for FY22 as against 4.84 times for FY21 and 6.19 times for FY20.

Acuite believes the financial risk profile of HCL is likely to improve over the near to medium term on account of healthy order book position thereby leading to improvement in operating performance.

Exposure to risks related to the tender-driven nature of the business, geographical concentration in revenues and orderbook

HCL receives subcontracts for projects of Rajasthan Urban Infrastructure Development Project (RUIDP) and water supply department of Uttar Pradesh. The firm has high dependence on regular receipt of subcontracts from its counterparties. Further, 70-80 percent of the total revenue of the company over the last two years is contributed by two projects. Also, given the cyclical nature inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Moreover, any delays in the project execution of current projects along with the delayed receipts from Government and site related issues are likely to result in higher working capital requirements and moderation in scale of operations.

Acuite believes that timely execution of projects and the ability of the firm to maintain the scale of operations with the current level of profitability would be the key rating sensitivity factor over the medium term.

Rating Sensitivities

- Sustained increase in order inflow, providing adequate revenue visibility for the medium term
- Significant improvement in scale of operations while maintaining profitability margins
- Further stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.
- Timely execution of its order book

Material covenants

None

Liquidity Position Adequate

The liquidity of the firm remained adequate marked by sufficient cash accruals to meet its debt service obligations. The firm has generated Rs.15.02 crore in FY22 as against 0.40 crore of debt service obligation during the same period. Liquidity of the firm is further supported by moderate reliance on bank limits reflected by average utilisation of 86% for 6 months ended December 2022. Further, the firm has planned to avail additional Rs. 20 crore of Cash credit limits. The Non fund based bank limits remained utilized at 66% as on December 2022. The firm has maintained cash balance of Rs. 0.34 crore as on March 31, 2022.

Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that the HCL will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced management and healthy order book. The outlook may be revised to 'Positive' in case the company achieves sustained growth in its revenues from the current levels while improving its profitability and significant improvement in execution of projects and securing fresh tenders. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins on account of delayed execution of projects, deterioration in order book position or liquidity.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	216.16	108.50
PAT	Rs. Cr.	14.34	4.67
PAT Margin	(%)	6.63	4.30
Total Debt/Tangible Net Worth	Times	4.31	3.49
PBDIT/Interest	Times	3.95	4.84

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>
- 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
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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