

18TH JULY, 2013
RATING RATIONALE

Facilities	Amount (Rs. Crores)	Rating
Cash Credit	12.00	SMERA B/Stable/Assigned
Bank Guarantee	3.00	SMERA A4/Assigned

SMERA has assigned ratings of '**SMERA B** (read as **SMERA Single B**) to the Rs.12.00 crores long term facility (fund based) and '**SMERA A4**' (read as **SMERA A four**) to the Rs.3.00 crores short term facility (non-fund based) of Hombale Infrastructure Projects LLP (HIP). The outlook is '**Stable**'. The ratings are constrained by the firm's limited operational track record, moderate scale of operations and below average financial risk profile marked by high leverage. The ratings are further constrained by susceptibility of the firm's margins to raw material price fluctuations. However, the ratings derive support from the firm's strong order book position and 'Class I' civil contractor registration with the Karnataka Public Works Department.

HIP has a moderate scale of operations with FY2013 revenue (provisional) at Rs.32.59 crores and pending orders worth Rs.41.19 crores as on June 05, 2013 (to be executed in FY2014). Further, the firm's profit margins are susceptible to volatility in raw material prices (main inputs include cement and steel) in the absence of any price escalation clause in the contract agreement. HIP has borrowed various equipment loans during FY2013 for capacity expansion. This coupled with moderate working capital requirement and low capital base has resulted in high leverage at 10.64 times and total liabilities to tangible net worth at 12.01 times as on March 31, 2013. However, the firm's liabilities also include unsecured loans (worth Rs.5.01 crores as on March 31, 2013) from partners. HIP has a moderate working capital management with working capital cycle of around 80 days. This is on account of timely receipt of payments from customers (government bodies), which leads to a moderate short term liquidity position marked by average working capital utilization at around 75.52 per cent during December 2012 to May 2013.

Established in 2011 as a Limited Liability Partnership (LLP) firm, HIP renders civil contract services for various Karnataka State Government bodies. HIP is a registered 'Class I' civil contractor for the Karnataka Public Works Department, which entitles the firm to bid for orders of any size. Mr. Vijaya Kumar T and Mr. Chaluve Gowda are the active partners of HIP. Prior to establishing HIP, Mr. Vijaya Kumar T was involved in executing government contracts since FY2008 under the

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proprietorship concern Vijaya Kumar T Engineers & Contractor. Mr. Chaluve Gowda assisted Mr. Vijaya Kumar T in the said firm, which was subsequently taken over by HIP in FY2013. Both the partners have limited experience in executing civil contracts.

Outlook: Stable

HIP has a 'Stable' outlook. SMERA believes that HIP will continue to benefit from being a registered 'Class I' civil contractor in Karnataka. However, HIP's ability to expand its scale of operations and improve its capital structure remains the key rating sensitivity.

About the Firm

HIP was established in 2011 as a limited liability partnership firm by Mr. Vijaya Kumar T, Mr. Chaluve Gowda and Mrs. Shailaja Shanthiprakash. In FY2013, HIP took over the running business of Vijaya Kumar T Engineers & Contractors, a proprietorship concern established in 2008 by Mr. Vijaya Kumar T.

HIP is engaged in rendering civil contract services for various Karnataka state government bodies. HIP's administrative office is located in Bengaluru, Karnataka.

On a standalone basis for FY2012, HIP reported net profit of Rs.0.03 crores on total income of Rs.0.43 crores. However, on a consolidated basis (after including financials of the erstwhile proprietorship concern), HIP reported net profit of Rs.2.15 crores on total income of Rs.27.21 crores for FY2012 as compared with net profit of Rs.1.62 crores on total income of Rs.24.56 crores for FY2011. Further, HIP has earned revenue of Rs.32.59 crores in FY2013 (provisional).

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