



Press Release

Hill Brow Metallics and Construction Pvt Ltd

August 12, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	12.50	IVR BBB+; Stable (IVR Triple B Plus with Stable outlook)	Revised from IVR BBB; Positive (IVR Triple B with Positive Outlook)	Simple
Short Term Bank Facilities	32.50	IVR A2 (IVR A Two)	Revised from IVR A3+ (IVR A Three Plus)	Simple
Proposed Short Term Bank Facilities	10.00	IVR A2 (IVR A Two)	Revised from IVR A3+ (IVR A Three Plus)	Simple
Total	55.00 (Rupees fifty five crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Hill Brow Metallics and Construction Pvt Ltd (HBMCPPL) considers the close operational and financial linkages between Sunil Kumar Agarwal LLP and Hill Brow Metallics and Construction Pvt Ltd. (commonly referred as SKA group). While revising the ratings, Infomerics has taken a consolidated view of these entities. The revision in ratings assigned to the bank facilities of HBMCPPL considers steady improvement in the financial performance of the group in FY22 (provisional) with healthy liquidity and its comfortable capital structure with adequate debt protection metrics. Further, the ratings continue to derive comfort from the group's established track record of operations under an experienced management, proven project execution capability, reputed clientele and healthy order book giving visibility to revenue in the near to medium term though exposed to geographical/project concentration risks. However, these rating strengths are partially offset



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by susceptibility of profitability due to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector and high working capital intensity.

Key Rating Sensitivities:

Upward factors

- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics on a sustained basis.
- Increase in geographical diversification.
- Sustenance of the capital structure.

Downward Factors

- Moderation in scale of operation with improvement in profitability on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing to more than 1x and impairment in debt protection metrics.
- Deterioration in liquidity position due to inability to obtain enhancement in the existing limits or high working capital intensity, resulting in heavy utilisation of the existing limits.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations and experienced management

The promoters of the group are associated with the construction industry for over three decades, since SKAL was initially established as a proprietorship firm in 1990. In 2002, it has been converted into partnership firm and subsequently to manage its growing scale of operation, it has been converted to Limited Liability partnership in 2017. Hill-Brow Metallica and Construction Private Limited, a company promoted by Mr. Sunil Kumar Agarwal and his brother Mr. Anil Kumar Agarwal is one of the partners in SKAL. Over the years, the promoters have developed immense industry insight and market reach which has enabled them to occupy a dominant position in the construction business in the state of Chhattisgarh. Infomerics expects benefits derived from the promoters' extensive experience and established goodwill in the market will continue to support the business going forward.



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Proven project execution capability

Over the years, the group has successfully completed many projects across the country for various medium to large government companies. In order to manage the projects in a better way and to grow in a balanced way, the group has a policy to take up short to medium term projects (1-2 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele

SKA group undertakes infrastructure projects for National Highways Authority of India (NHAI), Public Works Department, Pradhan Mantri Gram SadakYojna (PMGSY) and Mukhya Mantri Gram SadakYojana (MMGSY).

Healthy order book position indicating satisfactory near to medium term revenue visibility

SKAL has a strong order book position comprising 15 contracts aggregating to about Rs.612.72 crore as on March 31, 2022, which is about 2.30 times of its FY22 provisional construction revenue (i.e., Rs.266.24 crore). HBMCPPL has a strong order book position comprising 10 contracts aggregating to about Rs.406.84 Crore as on March 31, 2022 which is about 2.51 times of its FY22 (provisional) revenue (i.e., Rs.161.87 crore).

Steady improvement in revenue and healthy profit margins

The total operating income of group witnessed a y-o-y growth of ~15% in FY22 (provisional) to Rs.428.11 crore. The gradual increase in turnover both in FY21 and FY22 is driven by execution of higher orders with heavy inflow of orders. The EBITDA margin of the group remained satisfactory over the years and has improved from 12.23% in FY21 to 15.29% in FY22 (provisional) and is driven by better management of its operating expenses coupled with execution of high margin orders mainly. The PAT margin of the group has also moved in tandem with EBITDA margin and improved from 8.57% in FY21 to 11.36% in FY22 (provisional) mainly on account of reduced finance charges.

Comfortable capital structure with healthy debt protection metrics



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The overall gearing of the group, though deteriorated marginally from 0.35x as on March 31, 2020 to 0.50x as on March 31, 2021 provisional mainly on the back of increase in equipment continues to remain comfortable. The group availed equipment loans depending upon requirement for specific project execution. The equipment's were procured to execute major works taken in Chhattisgarh. Backed by gradual repayment of rem loans, the overall gearing has improved as it stood at 0.25x as on March 31, 2022. However, overall gearing of the group on adjusted net worth that deteriorated marginally to 0.53x as on March 31, 2021 with investment in a newly acquired group company SKA Steel & Power Pvt Ltd has also improved and stood at 0.26x March 31, 2022. Total indebtedness of the group as reflected by TOL/ATNW stands comfortable at 0.41x as on March 31, 2022. Debt protection parameters remained healthy with interest coverage of 8.18x and Total debt to GCA of 0.88 years in FY22.

Key Rating Weaknesses

Susceptibility of profitability to volatile input prices

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the firm remains susceptible to fluctuation in input prices. However, presence of escalation clause in most of the contracts provides significant comfort.

Tender driven nature of business and presence in highly fragmented & competitive construction sector

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the group's ability to successfully bid for the tenders as entire business is tender based. Further, the domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities which restricts the profitability to an extent.

Revenue concentration risks

The group faces high geographical concentration risk as maximum of its outstanding order book position (~98%) are from Chhattisgarh. Any delays on account heavy rains, floods or similar events may impact project execution and consequent revenue generation. Also, most of the projects under execution belong to the road and highway implying sectoral risks.



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High working capital intensity

Construction business, by its nature, is working capital intensive. A large amount of its working capital remained blocked as retention money, earnest money deposit and security deposit. The working capital requirement of the group is mainly funded through credit period availed from its creditors based on its established relationship and bank borrowings. Further, the group has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of fund-based limit of both the entities remained comfortable for the last 12 months ended March 31, 2022.

Analytical Approach: Consolidated. For arriving at the rating, Infomerics has combined the financial risk profiles Sunil Kumar Agarwal LLP and Hill Brow Metallics and Construction Pvt Ltd (HBMCPPL) as these entities are run under a common management, have strong operational & financial linkages and cash flow fungibility. Further, both these entities (commonly referred as SKA group) are in construction business and HBMCPPL is one of the partners of Sunil Kumar Agarwal LLP. The lists of Companies considered for consolidation are given in Annexure 3.

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

Liquidity – Adequate

The group earned GCA of Rs.57.63 crore in FY22 (Prov.). Further, liquidity position of the group is expected to remain adequate marked by its expected cash accruals of Rs.63.04 crore in FY23 as against its debt repayment of Rs.8.40 crore in FY23. Moreover, driven by its comfortable capital structure the group has strong gearing headroom.

About the Company

Hill-Brow Metallics and Construction Private Limited, renamed in 2007, was originally incorporated in 2004 in the name of Hill-Brow Metallics Private Limited by Mr. Sunil Kumar Agarwal. Sunil Kumar Agarwal LLP is established as a proprietorship firm in the year 1990 by



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Mr. Sunil Kumar Agarwal. In 2002, it has been converted into partnership firm and subsequently to manage its growing scale of operation, it has been converted to Limited Liability partnership (LLP) in 2017. It is a Raipur based firm managed by Mr. Sunil Kumar Agrawal and his family members. HBMCP is a partner in Sunil Kumar Agarwal LLP. Both these firms undertake road construction and maintenance projects for various schemes under central government, state government departments such as the Public Works Department, National Highway Authority of India under Pradhan Mantri Gram Sadak Yojna (PMGSY), Mukhya Mantri Gram Sadak Yojana (MMGSY) in and around Chhattisgarh.

Financials: Consolidated

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Combined	Combined
Total Operating Income	372.53	428.11
EBITDA	45.54	65.45
PAT	32.52	49.53
Total Debt	77.42	50.48
Tangible Net worth including quasi equity	155.64	201.77
EBITDA Margin (%)	12.23	15.29
PAT Margin (%)	8.57	11.36
Overall Gearing Ratio (x)	0.53	0.26
Interest Coverage Ratio (x)	4.52	8.18

**Classification as per Infomerics' standards.*

Financials: Standalone

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	106.87	161.87
EBITDA	12.10	30.55
PAT	8.84	22.77
Total Debt	19.45	13.96
Tangible Net worth including quasi equity	47.13	73.82
EBITDA Margin (%)	11.33	18.87
PAT Margin (%)	7.94	13.57
Overall Gearing Ratio (x)	0.27	0.10



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For the year ended* / As On	31-03-2021	31-03-2022
Interest Coverage Ratio (x)	0.41	0.19

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork Ratings maintained the rating at issuer not cooperating category vide its press release dated June 30, 2022 due to non-submission of information by the client.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	
1.	Cash Credit	LT	12.50	IVR BBB+; Stable	IVR BBB; Positive (Dec. 28, 2021)	IVR BBB; Positive (Sep. 11, 2020)	-	
2.	Bank Guarantee	LT	42.50 (Including proposed limit of Rs.10.00 crore)	IVR A2 (IVR A Two)	IVR A3+ (Dec. 28, 2021)	IVR A3+ (Dec. 01, 2021)	IVR A3+ (Sep. 11, 2020)	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India



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registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	12.50	IVR BBB+; Stable
Bank Guarantee	-	-	-	32.50	IVR A2
Bank Guarantee-Proposed	-	-	-	10.00	IVR A2



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Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Sunil Kumar Agarwal LLP	Full consolidation
Hill Brow Metallics and Construction Pvt Ltd	Full consolidation

Annexure 3: Facility wise lender details: As per attached annexure

https://www.infomerics.com/admin/prfiles/Bank_Lender_Hill_Brow_Metallics_12_08_2022.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.