Press Release

Hartek Power Private Limited
February 22, 2024

Ratings

Instrument / Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	10.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term / Short Term Bank Facilities	61.00	IVR BBB-/Stable / IVR A3 (IVR Triple B Minus with Stable Outlook / IVR A Three)	Assigned	Simple
Total	**71.00 (Rupees Seventy-one crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Hartek Power Private Limited (HPPL) derive strength from experienced promoters with proven track record, healthy order book indicating near term revenue visibility and growing scale of operations. The rating strengths are, however, constrained by moderate capital structure, working capital-intensive operations and the competitive and fragmented nature of the EPC industry.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in scale of operations along with improvement in profitability and cash accruals on a sustained basis.
- Improvement in the capital structure and debt protection metrics.
- Improvement in working capital cycle leading to overall improvement in the liquidity of the company.

Downward Factors

- Moderation in the scale of operations and/or deterioration in profitability impacting the liquidity and debt coverage indicators.
- Sharp changes in leverage impacting debt protection metrics.

- Stretch in working capital cycle impacting liquidity of the company.

List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Experienced promoters with proven track record

Mr. Hartek Singh, the Founder Chairman and Managing Director has 3 decades of experience in development and marketing. HPPL is an Engineering Procurement and Construction (EPC) company with expertise in building high voltage and extra high voltage substations and power distribution projects across the country. The company has executed over 300 projects on a complete turnkey basis across more than 21 states. The company has a presence amongst utilities as well as private sector. The company has executed projects for Azure Power India Pvt. Ltd., Renew Solar Energy Pvt. Ltd, Adani Power, Power Grid Corporation of India Ltd., Himachal Pradesh State Electricity Board Ltd. The company's proven track record has helped it secure repeat orders.

Healthy order book indicating near term revenue visibility

HPPL has an order book of Rs. 244.96 crore as on October 31, 2023, which is 1.15 times FY23 revenues (Rs. 214.34 crores) indicating revenue visibility in the near term. The order book is expected to be executed in the next 12 months. The current order book comprises ~70% orders from Independent Power Producers (IPPs), ~27% from Industrial and ~3% from Utilities. The orders are from reputed clientele namely Tata Power Solar Systems Limited, Sterile Power, Abrel Solar Power Limited, Renew Solar Energy Pvt. Ltd. to name a few under IPPs, Surya Steel Industries, Amba Shakti Steel Ltd., Blue Star Limited, etc under Industrial and Power Grid Corporation of India Ltd. under Utilities.

Growing scale of operations

Total operating income (TOI) of the company has registered a CAGR of ~45% in the last 3 years. TOI has increased to Rs. 214.34 crore in FY23 from Rs. 182.05 crore in FY22 due to increased order book and timely execution of projects. With the increase in topline, absolute EBIDTA improved to Rs. 9.11 crore in FY23 from Rs. 5.34 crore in FY22. The EBITDA margin improved to 4.25% in FY23 as compared to 2.93% in FY22. PAT margin improved to 1.95% in FY23 as against 1.48% in FY22. The company has achieved revenue of Rs. 181.96 crore and EBITDA of Rs. 7.77 crore in 9MFY24 (Unaudited).

B. Key Rating Weaknesses

Moderate capital structure

The total debt of the company has increased to Rs. 32.53 crore in FY23 from Rs. 12.58 crore in FY22 due to increase in working capital borrowings. The total debt includes bank borrowings of Rs. 14.08 crore, channel financing loan of Rs. 15.61 crore, term loan of Rs. 2.44 crore and unsecured loans from promoters/directors of Rs. 0.40 crore. The overall gearing ratio has moderated to 1.21x as on March 31, 2023, from 0.56 as on March 31, 2022. TOL/TNW moderated to 3.06 as on March 31, 2023, from 2.46 as on March 31, 2022. The debt protection metrics like interest coverage ratio remain comfortable at 3.05x in FY23 and 2.71x in FY22. However, total debt to GCA moderated to 6.80 times in FY23 as against 3.79 times in FY22.

Working Capital-Intensive Operations:

The operations of the company are working capital intensive. The operating cycle of the company moderated to 51 days in FY23 from 36 days in FY22. The average collection period marginally increased to 97 days in FY23 from 94 days in FY22. The receivable cycle remains high on account of elongated payment cycle due to retention money in the EPC division. The average creditor period improved to 61 days in FY23 from 70 days in FY22. The company's fund based working capital limits were 55.37% utilised for 12 months ended September 2023. The operations are also non fund based intensive and are 97.93% utilised as on November 22, 2023.

Competitive and fragmented nature of the EPC industry

The entry barriers in the industry are low on account of limited capital and technology requirement and low differentiation in the end product. Further, fragmented nature due to the presence of large number of unorganized players has led to competition, limiting the pricing power of the companies, and affecting the margins.

Analytical Approach: Standalone

Applicable Criteria:

Policy on default recognition

Criteria of assigning Rating Outlook

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has gross cash accruals in the range of Rs. 5.93 – Rs. 7.92 crores in the projected period FY24 - FY26, adequate to meet the repayment obligations of Rs. 0.16 crore in FY24, Rs. 0.08 crore in FY25 and Rs. 0.04 in FY26. The average utilisation of the cash credit limits was at ~55% for last 12 months ended September 2023.The current ratio stood comfortable at 1.32x as on March 31, 2023.

About the company

Hartek Power Private Limited was established in 2007 and is located in Mohali, Punjab. It is an Engineering Procurement and Construction (EPC) company with expertise in building high voltage and extra high voltage substations and power distribution projects across the country.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	**31-03-2022 (Audited)**	**31-03-2023 (Audited)**
Total Operating Income	182.05	214.34
EBITDA	5.34	9.11
PAT	2.70	4.20
Total Debt	12.58	32.53
Tangible Net worth	22.61	26.81
Ratios		
EBITDA Margin (%)	2.93	4.25
PAT Margin (%)	1.48	1.95
Overall Gearing Ratio (x)	0.56	1.21

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The rating was downgraded and migrated under ISSUER NOT COOPERATING category from Brickwork Ratings as per press release dated January 02, 2024, due to unavailability of information for monitoring of rating.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	10.00	IVR BBB-/ Stable	-	-	-
2.	Bank Guarantee	Long Term/ Short Term	61.00	IVR BBB-/Stable / IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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	-	-	-	10.00	IVR BBB-/Stable
Bank Guarantee	-	-	-	61.00	IVR BBB-/Stable / IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-hartekpower-feb24.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.