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Hill Brow Metallics and Construction Pvt Ltd

October 17, 2023

Ratings

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)	Reaffirmed and removed from Rating watch with developing implications	Simple
Short-Term Bank Facilities(including proposed limit of Rs.10.00 crore)	42.50	IVR A2 (IVR A Two)	Reaffirmed and removed from Rating watch with developing implications	Simple
Total	55.00 (Rupees fifty-five crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Hill Brow Metallics and Construction Pvt Ltd (HBMCPCL) 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).

The ratings assigned to the bank facilities of Hill Brow Metallics and Construction Pvt Ltd continue to reflect steady improvement in operational and financial performance of the group in FY23 with steady improvement in revenue & healthy profit margins and SKA group's comfortable capital structure with healthy 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 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.

Earlier the ratings were placed under rating watch with developing implications, following a raid undertaken by the Enforcement Directorate (ED), on Mr. Sunil Ramdas Agarwal who is one of the Designated partner and Director in Sunil Kumar Agarwal LLP and Hill Brow Metallics & Construction Pvt Ltd respectively. However, it has been removed from rating watch with



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developing implications, considering the smooth running of business operation of the group as reflected by the H1FY24 performance of both the entities, and no impact of the raid undertaken by the Enforcement Directorate (ED) on the business operations of the group.

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.
- Any adverse impact on the raid undertaken by the Enforcement Directorate (ED) of the group.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Established track record of operations and experienced management**

The promoters of the SKA 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 Agrawal and his brother Mr. Anil Kumar Agrawal 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.

- **Proven project execution capability**



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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 Sadak Yojna (PMGSY), Mukhya Mantri Gram Sadak Yojana (MMGSY).

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

The group has a healthy unexecuted order book of Rs 1553.76 crores as on July 31, 2023 to be executed in the next 18 to 24 months which provides adequate revenue visibility over the medium term. The current unexecuted order book is around 3.61 times the revenues of fiscal 2023, sustenance of healthy pipeline in orderbook will remain a key monitorable.

- **Steady improvement in revenue and healthy profit margins**

The total operating income of the group witnessed a y-o-y growth of ~11% in FY22 to Rs.412.89 crore and subsequently by ~ 3.50% to Rs.430.06 crore in FY23 (provisional). The gradual increase in turnover is driven by the execution of higher orders. The EBITDA margin of the group remained satisfactory over the years driven by better management of its operating expenses coupled with execution of high margin orders. In FY23 (provisional), EBITDA margin improved to 13.27%. The PAT margin of the group has also improved to 6.76% in FY23 (provisional). Further, the group has managed to churn out revenue of ~Rs.222.57 crore in H1 FY24.

- **Comfortable capital structure with healthy debt protection metrics**

The overall gearing of the group continued to remain comfortable at 0.63x as on March 31, 2023. Total indebtedness of the group as reflected by TOL/TNW also stands comfortable at 0.83x as on March 31, 2023 (provisional). The debt protection metrics of the group remained satisfactory marked by its interest coverage ratio at 5.25x in FY23 and Total debt to GCA at 2.62x as on March 31, 2023 (provisional).

Key Rating Weaknesses



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- **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.

- **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 June 30, 2023.

Analytical Approach: Combined

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



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business and HBMCP 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 \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

Liquidity position of the group is expected to remain adequate in the near term marked by its expected cash accruals of Rs.44.63 crore-Rs.55.89 crore as against its debt repayment of Rs.7.99 crore-Rs.13.13 crore during FY24-FY26. The group earned gross cash accruals of Rs.39.44 crore in FY23 (Prov.). Further, Moreover, driven by its comfortable capital structure the group has strong gearing headroom.

About the Entity

Sunil Kumar Agarwal LLP is established as a proprietorship firm in the year 1990 by 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 in 2017. It is a Raipur based firm managed by Mr. Sunil Kumar Agrawal and his family members. 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. 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 of SKA Group (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023*
	Combined	Combined
Total Operating Income	412.89	430.06
EBITDA	50.70	57.08
PAT	25.82	29.31
Total Debt	106.11	103.31
Tangible Net worth	140.17	162.70



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EBITDA Margin (%)	12.28	13.27
PAT Margin (%)	6.17	6.76
Overall Gearing Ratio (x)	1.09	0.63
Interest Coverage	5.25	5.25

*Provisional

**Classification as per Infomerics' standards.

Financials of Hill Brow Metalics and Construction Pvt Ltd (Standalone): (Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	168.09	105.75
EBITDA	19.35	15.44
PAT	11.51	7.84
Total Debt	32.03	30.06
Tangible Net worth	58.43	66.27
EBITDA Margin (%)	11.51	14.60
PAT Margin (%)	6.75	7.25
Overall Gearing Ratio (x)	0.55	0.45
Interest Coverage	7.82	5.46

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: (Rs. Crore)

Sr. No	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years					
		Type	Amount outstanding (Rs. Cr.)	Rating		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 21-22	Date(s) & Rating(s) assigned in 21-22	Date(s) & Rating(s) assigned in 20-21	Date(s) & Rating(s) assigned in 20-21
1.	Cash Credit	LT	12.50	IVR BBB+; Stable	IVR BBB+; RWDI* (Aug 31, 2023)	IVR BBB+; RWDI* (Aug 01, 2023)	IVR BBB+; Stable (Aug 12, 2022)	IVR BBB; Positive (Dec 28, 2021)	IVR BBB; Positive (Dec 01, 2021)	IVR BBB; Positive (Sep 11, 2020)



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)					Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating			Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 21-22	Date(s) & Rating(s) assigned in 21-22	Date(s) & Rating(s) assigned in 20-21
2.	Bank Guarantee	ST	32.50	IVR A2;	IVR A2; RWDI* (Aug 31, 2023)	IVR A2; RWDI* (Aug 01, 2023)	IVR A2 (Aug 12, 2022)	IVR A3+ (Dec 28, 2021)	IVR A3+ (Dec 01, 2021)	IVR A3+ (Sep 11, 2020)
3.	Proposed – Non-Fund Based	ST	10.00	IVR A2;	IVR A2; RWDI* (Aug 31, 2023)	IVR A2; RWDI* (Aug 01, 2023)	IVR A2 (Aug 12, 2022)	IVR A3+ (Dec 28, 2021)	IVR A3+ (Dec 01, 2021)	IVR A3+ (Sep 11, 2020)

*Rating Watch with Developing Implications

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About Infomerics Ratings:

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.



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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	12.50	IVR BBB+; Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	32.50	IVR A2
Short Term Non-Fund Based Limits – (Proposed)	-	-	-	10.00	IVR A2

Annexure 2: Facility wise lender details: As per attached annexure <https://www.infomerics.com/admin/prfiles/len-Hill-Brow-aug23.pdf>

Annexure 3: List of companies considered for consolidated analysis:

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

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.