



Press Release

Hill Brow Metallics and Construction Pvt Ltd

December 28, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	12.50 (enhanced from 12.00)	IVR BBB; Positive (IVR Triple B with Positive Outlook)	Reaffirmed
2	Short Term Bank Facilities	32.50 (enhanced from 27.00)	IVR A3+ (IVR A Three Plus)	Reaffirmed
3.	Proposed Short Term Bank Facilities	10.00	IVR A3+ (IVR A Three Plus)	Reaffirmed
	Total	55.00 (Rupees fifty five crores only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The reaffirmation of 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). While reaffirming the ratings, Infomerics has taken a consolidated view of these entities. The ratings take into account the consolidated entity'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. The ratings also factor in continuous improvement in revenue and profit margins of the group and its comfortable capital structure with healthy debt protection metrics. However, these rating strengths are partially offset by susceptibility of profitability to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector and high working capital intensity. The outlook remains positive on the back of SKA's group expected improvement in scale of operations and financial risk profile marked by improvement in cash accruals.

Key Rating Sensitivities:

Upward Factor:



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- Growth in scale of operations with improvement in profitability leading to improvement in debt protection metrics on a sustained basis
- Sustenance of the capital structure
- Sufficient liquidity buffer with enhancement in the existing limits or working capital limits utilisation below 90% on a sustained basis

Downward factor:

- 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 Metallics and Construction Private Limited, a company promoted by Mr. Sunil Kumar Agarwal and his brother Mr. Anil Kumar Agarwal is one of the partner 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**

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**



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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**

HBMCPCL has a strong order book position comprising 11 contracts aggregating to about Rs.316.14 Crore as on November 15, 2021 which is about 2.98 times of its FY21 provisional revenue. The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. However, the company has 100% of road work orders in the state of Chhattisgarh, thereby signifying geographical/project concentration risks exists.

SKAL has a strong order book position comprising 18 contracts aggregating to about Rs.630.94 crore as on Nov. 15, 2021 which is about 2.38 times of its FY21 Provisional construction revenue (i.e., Rs.264.97 crore). This apart, the firm has L1 order amounting to Rs.105.77 crore, which they expect to get by mid of December 2021. The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility.

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

The total operating income of group witnessed a y-o-y growth of ~28% in FY21 provisional to Rs.370.93 crore. This increase in turnover in FY21 provisional 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 marginally from 12.17% in FY20 to 13.85% in FY21 provisional driven by better management of its operating expenses coupled with execution of high margin orders mainly. Furthermore, the PAT margin of the group also improved from 9.76% in FY20 to 10.14% in FY21 provisional mainly on account of increase in absolute EBITDA.

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

The overall gearing of the group, though deteriorated marginally from 0.35x as on March 31, 2020 to 0.45x 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



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works taken in Chhattisgarh. However, overall gearing of the group on adjusted net worth deteriorated marginally to 0.48x as on March 31, 2021 provisional with investment in a newly acquired group company SKA Steel & Power Pvt Ltd. Total indebtedness of the group as reflected by TOL/ATNW stands comfortable at 0.63x as on March 31, 2021 provisional. Debt protection parameters remained healthy with interest coverage of 5.03x and Total debt to GCA of 1.65 years in FY21 (Prov.).

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 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. The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

- **Revenue concentration risks**

The group faces high geographical concentration risk as maximum of its outstanding order book position (around 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



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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 I both the entities remained comfortable for the last 12 months ended October 31, 2021.

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(HBMCPL) 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 HBMCPL 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: Strong

The group earned GCA of Rs.45.27 crore in FY21 (Prov.). Further, liquidity position of the group is expected to remain adequate marked by its expected cash accruals of Rs.48.33 crore in FY22 compare to its debt repayment of Rs.7.50 crore in FY22. Moreover, driven by its comfortable capital structure the group has strong gearing headroom.

About the company

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. M/S 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. HBMCPL 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.



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Financials: Combined

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	Combined	Combined
Total Operating Income	288.95	370.93
EBITDA	35.17	51.37
PAT	29.06	38.31
Total Debt	45.79	74.60
Tangible Net worth including quasi equity	131.69	164.39
EBITDA Margin (%)	12.17	13.85
PAT Margin (%)	9.76	10.14
Overall Gearing Ratio (x)	0.35	0.45

**Classification as per Infomerics' standards.*

Financials: Standalone

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	90.52	105.96
EBITDA	8.22	13.45
PAT	7.93	8.86
Total Debt	11.98	20.08
Tangible Net worth	38.31	50.10
EBITDA Margin (%)	9.08	12.69
PAT Margin (%)	8.31	7.92
Overall Gearing Ratio (x)	0.31	0.40

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Brickwork has moved the rating of HBMCP into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated June 03, 2020.

Any other information: NA

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings		Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	12.50	IVR BBB; Positive	IVR BBB; Positive (Dec. 01, 2021)	IVR BBB; Positive (Sep 11, 2020)	-	-
2.	Bank Guarantee	Short Term	32.50	IVR A3+	IVR A3+ (Dec. 01, 2021)	IVR A3+ (Sep 11, 2020)	-	-
3.	Proposed	Short Term	10.00	IVR A3+	IVR A3+ (Dec. 01, 2021)			

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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
Long Term Fund Based Limits - Cash Credit	-	-	-	12.50	IVR BBB; Positive
Short Term Non Fund Based Limits- Bank Guarantee	-	-	-	32.50	IVR A3+
Proposed Short Term Non Fund Based Limits- Bank Guarantee	-	-	-	10.00	IVR A3+

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Hill-Brow-Metallics-lenders-dec21.pdf>

Annexure 3

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

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Bank Guarantee	Simple

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.