Hill Brow Metallics and Construction Private Limited
August 01, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	12.50	IVR BBB+ Under Rating Watch with developing implications (IVR Triple B Plus Under Rating Watch with developing implications)	Reaffirmed and placed under Rating watch with developing implications	Simple
Short-Term Bank Facilities	32.50	IVR A2 Under Rating Watch with developing implications (IVR A Two Under Rating Watch with developing implications)	Reaffirmed and placed under Rating watch with developing implications	Simple
Short-Term Bank Facilities- Proposed	10.00	IVR A2 Under Rating Watch with developing implications (IVR A Two Under Rating Watch with developing implications)	Reaffirmed and placed under Rating watch with developing implications	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 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 were placed on watch, 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. Since, the potential impact of the raid on the credit risk profile of Sunil Kumar Agarwal LLP is still uncertain, Infomerics will closely monitor the same and will remove the ratings from watch and take a final action once clarity is achieved.

The ratings assigned to the bank facilities of Hill Brow Metallics and Construction Pvt Ltd (HBMPL) continue to reflect steady improvement in financial performance of the group in FY22 with healthy liquidity and SKA group’s 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 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.
- 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 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 3 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 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

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) and Mukhya Mantri Gram Sadak Yojana (MMGSY).

Healthy order book position indicting 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 2.50 times of its FY22 construction revenue (i.e., Rs.244.80 crore). HBMCPL has a strong order book position comprising 10 contracts aggregating to about Rs.406.84 Crore as on March 31, 2022, which is about 2.42 times of its FY22 revenue (i.e., Rs.168.09 crore).

Steady improvement in revenue and healthy profit margins

The total operating income of group witnessed a y-o-y growth of ~11% in FY22 to Rs.412.89 crore driven by the execution of higher orders with heavy inflow of orders. The EBITDA margin of the group remained satisfactory over the years and has remained comfortable at 12.28% in FY22 marginally moderated from 12.41% in FY21. The PAT margin of the group has also moved in tandem with EBITDA margin and moderated from 6.27% in FY21 to 6.17% in FY22.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the group, deteriorated marginally from 0.58x as on March 31, 2021, to 0.76x as on March 31, 2022, mainly on the back of increase in equipment loans and higher utilization of bank borrowings as on balance sheet date. The group availed additional equipment loans depending upon requirement for specific project to execute major works taken in Chhattisgarh. Total indebtedness of the group as reflected by TOL/ATNW stands comfortable at 1.49x as on March 31, 2022. Debt protection parameters remained healthy with interest coverage of 5.25x 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.

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 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: 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 (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)

Criteria of assigning rating outlook

Liquidity: Adequate

The group earned GCA of Rs. Rs.34.56 crore in FY22. 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 Group

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 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 byMr. 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.

Financials of SKA Group (Combined): **(Rs. crore)**

For the year ended* / As On	31-03-2021	31-03-2022
	Combined	Combined
Total Operating Income	372.53	412.89
EBITDA	46.22	50.70
PAT	23.77	25.82
Total Debt	77.42	106.11
Tangible Net worth	133.94	140.17
EBITDA Margin (%)	12.41	12.28
PAT Margin (%)	6.27	6.17
Overall Gearing Ratio Adjusted. (x)	0.67	1.09
Interest Coverage	4.30	5.25

*Classification as per Infomerics' standards.

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

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	106.87	168.09
EBITDA	12.78	19.35
PAT	8.84	11.51
Total Debt	19.45	32.03
Tangible Net worth	47.13	58.43
EBITDA Margin (%)	11.95	11.51
PAT Margin (%)	7.94	6.75
Overall Gearing Ratio (x)	0.41	0.55
Interest Coverage	3.11	7.82

*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/	Current Rating (Year 2023-24)	Rating History for the past 3 years

	Facilities	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
1.	Cash Credit	LT	12.50	IVR BBB+; RWDI*	IVR BBB+; Stable (May 30, 2022)	IVR BBB; Positive (Dec 28, 2021)	IVR BBB; Positive (Dec 01, 2021)	IVR BBB; Positive (Sep 11, 2020)
2.	Bank Guarantee	ST	32.50	IVR A2; RWDI*	IVR A2 (May 30, 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; RWDI*	IVR A3 (May 30, 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:

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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.

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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+ Under Rating Watch with developing implications
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	32.50	IVR A2 Under Rating Watch with developing implications
Short Term Non-Fund Based Limits – (Proposed)	-	-	-	10.00	IVR A2 Under Rating Watch with developing implications

Annexure 2: Facility wise lender details: As per attached link https://www.infomerics.com/admin/prfiles/len-HillBrow-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 Metallics 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.