

Rating Rationale

August 28, 2024 | Mumbai

Highway Infrastructure Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.116 Crore
Long Term Rating	CRISIL BBB/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Highway Infrastructure Ltd (HIL) to '**Positive**' from '**Stable**' while reaffirming the rating at '**CRISIL BBB**'. The rating on the short-term bank facilities has been reaffirmed at '**CRISIL A3+**'.

The revision in outlook factors in the improvement in the business risk profile of the company supported by increasing revenue to Rs 406 crore in fiscal 2024 from Rs 286 crore in fiscal 2023 backed by increased revenue contribution from toll management segment while maintaining healthy order execution in the engineering, procurement and construction (EPC) segment. Operating margin was stable at 7% in fiscal 2024 despite high revenue contribution from lower margin toll management segment. Revenue from the toll management segment is expected to improve over the medium term and therefore sustenance of operating margin backed by proportionately improving EPC contribution in overall revenue will be a key monitorable. The financial risk profile and liquidity of the company were healthy and should improve in the absence of any major increase in external borrowing expectation, during the medium term.

The ratings continue to reflect the established market position of the company and the extensive experience of the promoters in the construction industry along with healthy financial risk profile. These rating strengths are partially offset by modest scale of operations, large working capital requirement, susceptibility to risks inherent in tender-based business and moderate contribution from the EPC segment.

Analytical Approach:

nsecured loans of Rs 0.43 crore as on March 31, 2023 infused by the promoters have been treated as Debt.

Key Rating Drivers & Detailed Description

Strengths:

- Established market position and extensive experience of the promoters:** The promoters have experience of more than 20 years in the construction industry, strong understanding of local market dynamics and established relationships with customers and suppliers, which should continue supporting the business, over the medium term. The company has diversified into management and operations of tolls and construction business with an order book of more than Rs. 600 crores providing healthy revenue visibility from this segment, over the medium term. This has also been key driver of growth in revenue to Rs 402 crore in fiscal 2024 from Rs. 266 crore in fiscal 2023. Further, revenue is expected to improve in fiscal 2025 on accounts of in-hand orders and toll collection projects, which will be monitorable over the medium term.
- Healthy financial risk profile:** Networth was healthy at around Rs. 93 crore as on March 31,2024. Total outside liabilities to adjusted networth (TOL/ANW) was 0.92 times and gearing was moderate estimated at 0.55 times as on March 31, 2024. Debt protection metrics are comfortable, as indicated by interest coverage estimated to be around 5 times and net cash accrual to adjusted debt ratio to 0.43 time in fiscal 2024. The financial risk profile should remain

comfortable over the medium term.

Weaknesses:

- **Susceptibility to risks inherent in tender-based business:** Revenue and profitability entirely depend on the ability to win tenders. Because of intense competition, HIL has to bid aggressively to get contracts, which restricts its operating margin. Also, owing to cyclical nature inherent in the construction industry, the ability to maintain profitability through operating efficiency becomes critical.
- **Large working capital requirement:** Operations are moderately working capital intensive in nature and are related majorly to the EPC segment. Inventory and creditors are minimal in the toll management segment. Bank guarantee of around two weeks collection is kept as deposit with the principle while collections are deposited every week in the toll management segment. However, in the EPC segment, HIL maintains around 30-45 days of inventory which are largely order backed while monthly bills raised are cleared within 30-45 days. Net Gross Current Asset days (NGCA) calculated against EPC segment sales only is around 200 days. The working capital requirements are expected to remain high driven by various deposits like earnest money, security deposits and retention money, required to be provided to the customer.
- **Modest revenue contribution from EPC segment:** Operating margin in EPC is at around 12-13% whereas the margins in the toll management segment ranges at around 5-5.5%. Revenue contribution from the toll segment has increased to more than 75% in FY24 leading to lower overall operating margin at around 7-7.5%. Increased contribution from the EPC segment is expected backed by healthy in-hand order book. The same should lead to improvement in the overall operating margins, leading to higher-than-expected net cash accruals and the same will remain a key monitorable

Liquidity: Adequate

Bank limit utilization is moderate at around 85 percent for the past twelve months ended July 2024. Cash accrual are expected to be over Rs. 20 crore which is sufficient against term debt obligation of Rs. 1-2 crore over the medium term. Current ratio are healthy at 1.57 times as on March 31, 2024.

Outlook; Positive

CRISIL Ratings believe HIL will continue to benefit from the extensive experience of its promoters, and above-average financial risk profile

Rating sensitivity factors

Upward factors

- Increased revenue growth driven by higher contribution from EPC segment while maintaining moderate operating margin at more than 7%
- Efficient working capital cycle and no major debt funded capital expenditure plans

Downward factors

- Significant decline in revenue or reduced operating margin leading to net cash accruals of less than Rs. 10 crore
- Intense working capital management or major debt funded capex plans impacting capital structure

About the Company

HIL, incorporated in 2018 in Indore (Madhya Pradesh), executes projects for roads, bridges and building construction. It also undertakes toll collection projects. Mr Arun Jain and Mr Anoop Agarwal are the promoters

Key Financial Indicators

As on / for the period ended March 31		2024*	2023
Operating income	Rs crore	402	266.48
Reported profit after tax	Rs crore	19.0	11.70
PAT margins	%	4.70	4.39
Adjusted Debt/Adjusted Net worth	Times	0.54	0.57
Interest coverage	Times	4.82	3.77

*Provisional

Status of non cooperation with previous CRA:

HIL has not cooperated with Brickwork Ratings India Private Limited, which has published its ratings as an issuer not cooperating vide a release dated March 26, 2020. The reason provided by Brickwork Ratings India Private Limited was non-furnishing of information by HIL for monitoring the ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Bank Guarantee	NA	NA	NA	66.92	NA	CRISIL A3+
NA	Cash Credit	NA	NA	NA	10.00	NA	CRISIL BBB/Positive
NA	Cash Credit&	NA	NA	NA	5.00	NA	CRISIL BBB/Positive
NA	Cash Credit^	NA	NA	NA	10.00	NA	CRISIL BBB/Positive
NA	Drop Line Overdraft Facility	NA	NA	NA	12.68	NA	CRISIL BBB/Positive
NA	Overdraft Facility	NA	NA	NA	4.80	NA	CRISIL BBB/Positive
NA	Working Capital Demand Loan	NA	NA	NA	5.00	NA	CRISIL BBB/Positive
NA	Term Loan	31-Mar-22	NA	31-Mar-25	0.53	NA	CRISIL BBB/Positive
NA	Term Loan	31-Mar-22	NA	31-Mar-25	0.92	NA	CRISIL BBB/Positive
NA	Term Loan	31-Mar-22	NA	31-Mar-25	0.15	NA	CRISIL BBB/Positive

& - Cash credit to the extent of Rs. 5 crore is a sublimit of bank guarantee limit

^ - cash credit to the extent of Rs. 1 crore is a sublimit of bank guarantee.

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	49.08	CRISIL BBB/Positive		--	30-06-23	CRISIL BBB/Stable	24-05-22	CRISIL A4 / CRISIL B /Stable(Issuer Not Cooperating)*	31-03-21	CRISIL BB+ /Stable / CRISIL A4+ (Issuer Not Cooperating)*	CRISIL A3+ / CRISIL BBB/Stable
Non-Fund Based Facilities	ST	66.92	CRISIL A3+		--	30-06-23	CRISIL A3+	24-05-22	CRISIL A4 (Issuer Not Cooperating)*	31-03-21	CRISIL A4+ (Issuer Not Cooperating)*	CRISIL A3+

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	15	Kotak Mahindra Bank Limited	CRISIL A3+
Bank Guarantee	10.4	HDFC Bank Limited	CRISIL A3+
Bank Guarantee	17.52	YES Bank Limited	CRISIL A3+
Bank Guarantee	24	Axis Bank Limited	CRISIL A3+
		Kotak Mahindra Bank	

Cash Credit	10	Limited	CRISIL BBB/Positive
Cash Credit ^{&}	5	YES Bank Limited	CRISIL BBB/Positive
Cash Credit [^]	10	Axis Bank Limited	CRISIL BBB/Positive
Drop Line Overdraft Facility	12.68	HDFC Bank Limited	CRISIL BBB/Positive
Overdraft Facility	4.8	HDFC Bank Limited	CRISIL BBB/Positive
Term Loan	0.53	HDFC Bank Limited	CRISIL BBB/Positive
Term Loan	0.92	Axis Bank Limited	CRISIL BBB/Positive
Term Loan	0.15	YES Bank Limited	CRISIL BBB/Positive
Working Capital Demand Loan	5	YES Bank Limited	CRISIL BBB/Positive

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Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
Rating Criteria for Construction Industry
CRISILs Criteria for rating short term debt

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