Madhav Infra Projects Limited

September 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities*	164.97 (Reduced from 165.09)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities*	355.92 (Reduced from 371.44)	CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)	Reaffirmed
Short Term Bank Facilities	0.49 (Reduced from 1.10)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**521.38 (Rs. Five Hundred Twenty-One Crore and Thirty-Eight Lakh Only)**		

*Reclassified bank facilities of Rs.14.92 crore from Long Term/Short Term to Long Term

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) continue to derive strength from its experienced promoter group and their established track record of executing projects in infrastructure sector, healthy order book position with low counterparty credit risk reflecting good revenue visibility over medium term.

CARE also take cognizance of increase in MIPL's scale of operations in FY21 (refers to the period April 1 to March 31) led by scaling up of EPC segment along with steady income from its renewable power portfolio and proposed debt reduction plan of MIPL through sale of its solar power project at Uttarakhand and monetization of a land parcel (post-merger of its subsidiary with MIPL) by Q4FY22.

The above rating strengths, however, are partially offset by dip in MIPL's profitability which led to net losses in FY21, high leverage and stretched liquidity resulting in modest debt coverage indicators, and high working capital intensity of its operations. The ratings also continue to factor construction risk associated with timely execution of orders in hand which are concentrated in two states, susceptibility of its profitability to raw material price volatility and its presence in intensely competitive & fragmented construction industry.

Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade:

- Growth in TOI to above Rs.350 crore with improvement in PBILDT margin of 14% on a sustained basis
- Reduction in total debt leading to overall gearing below 1.00 times on a sustained basis

Negative factors- Factors that could lead to negative rating action/downgrade:

- Any delays in materialization of debt reduction plan through sale of one of the renewable power project and land parcel beyond FY22
- Delay in receipt of need-based support by promoters/group entities
- Non-achievement of envisaged income and profitability from the EPC segment in FY22
- Any further investment in its group entities or undertaking major debt-funded capex in near term

Outlook: Negative

CARE expects that MIPL's overall performance to remain under pressure on account of high debt repayment obligations, which is envisaged to exert pressure on MIPL's liquidity and necessitate need-based support from promoters & group entities. Materialization of debt reduction plan as envisaged is also crucial from credit perspective.

The outlook, however, may be revised to 'Stable' in case of sustainable increase in MIPL's scale of operations along with improvement in profitability, resulting in higher cash accruals to meet its scheduled debt repayment obligations, better capital structure and liquidity.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter group in infrastructure sector and track record of arranging funds to meet debt obligations: MIPL is a part of Vadodara-based Madhav group and is an in-house EPC arm of the group. It is promoted by Mr Ashok Khurana & his son Mr Amit Khurana, who possess vast experience in the infrastructure industry. The promoter group is ably supported by vast team of engineers & project managers in executing projects. The group has demonstrated strong project execution capability in both road & solar segment. The promoter group has arranged funds through monetization of solar power/ non-core assets, recovery of advances and infusion of unsecured loans to meet on a regular basis to meet incremental working capital requirements and debt servicing.

Healthy order book position with low counterparty credit risk: As on March 31, 2021, MIPL had a healthy order book of Rs.701.63 crore (Rs.794.32 crore as on July 01, 2020). Orderbook to TOI remained at 2.58x which provides revenue visibility over the medium term. Further, MIPL has a low counterparty credit risk as majority of its orders are from government entities including urban local bodies, state governments and central government undertakings. The order book is also well diversified across various segments including road (50%), bridges (15%), solar(33%) and civil works segment(2%). However, the order book is geographically concentrated with Madhya Pradesh and Maharashtra forming 78% of its orderbook, exposing the company to risks associated with any probable adverse socio-political upheaval in the region.

Steady income from own renewable energy projects; however, sale of Uttarakhand solar power project would result into decrease in income as well as debt levels: MIPL has operational solar power plants at various locations across India and also undertakes O&M of a mini hydro project at Chambal. During FY21, MIPL reported revenue of Rs.20.26 crore (Rs.19.80 crore in FY20) from above projects. However, as a part of its debt reduction plan, MIPL has received an advance towards sale for its solar power project at Uttarakhand in FY21 and is envisaged to be transferred in H2FY22. While it will improve leverage, the transaction will significantly reduce the contribution of renewable power segment in MIPL's TOI going forward.

Key Rating Weaknesses

Moderate scale of operations and dip in profitability leading to net losses in FY21: Total Income from Operations (TOI) of MIPL grew by over 34% y-o-y to Rs.272.09 crore in FY21 (Rs.202.65 crore in FY20) on account of increase of revenue from EPC segment in FY21. Revenue from EPC segment constituted 89% of TOI in FY21 (87% in FY20).
PBILDT margin, however, reduced by around 980 bps y-o-y to 13.31% in FY21 on account of higher project execution expenses due to COVID-19. Due to lockdown restrictions and reverse migration of labourers, MIPL faced acute shortage at project sites and had to pay higher charges to temporary contractors to ensure availability of labour for project execution. During FY21, MIPL incurred road work expenditure of Rs.99.40 crore as against Rs.15.82 crore in FY20. On account of significant lower operating margins and stable interest cost, company incurred loss of Rs.12.04 crore in FY21 (PAT of Rs.4.60 crore in FY20). Further, GCA of company reduced to Rs.4.55 crore in FY21 from Rs.13.63 crore in FY20.
During Q1FY22, MIPL reported TOI of Rs.68.52 crore with PAT of Rs.1.44 crore.

Leveraged capital structure and modest debt coverage indicators: MIPL's capital structure remained leveraged marked by an overall gearing of 2.29 times as on March 31, 2021 (2.11 times as on March 31, 2020).Further, debt coverage metrics deteriorated and remained modest marked by PBILDT interest coverage ratio of 1.14x (FY20: 1.39x) and high total debt to gross cash accruals of 65.26x (FY20: 22.02x) in FY21 due to lower cash accruals in FY21. However, leverage is expected to improve by FY22 end after implementation of proposed debt reduction plan.

Susceptibility of its profitability to raw material prices volatility: Considering execution period of orders awarded to MIPL usually range from 12 to 30 months, its profitability remains susceptible to adverse fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent.

Presence in an intensely competitive & fragmented construction industry: MIPL is a mid-sized player operating in an intensely competitive construction industry wherein contracts are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which exerts pressure on the margins. The construction sector has been adversely impacted due to Covid-19 on account of slowdown in project execution, heavy labour migrations, increase in working capital intensity and fixed cost pressures on cash flows and profitability. However, the government and RBI have introduced various measures and mitigants to counter the impact and reduce the impact on the industry.

Working capital intensive nature of operations: Company's presence in construction industry inherently results in high working capital intensive operations, with funds required to fund margin money for bank guarantees and security deposits apart from debtors and inventory levels. MIPL's working capital cycle improved to 188 days (256 days during FY20) however remained elongated mainly on account of higher collection period and inventory period. In absolute terms, total receivables (including retention money) increased to Rs.111.39 crore as on March 31, 2021 (Rs.99.40 crore as on March 31, 2020) on account of higher EPC income of Rs.145.31 crore booked in Q4FY21.

Liquidity: Stretched
Increase in working capital intensity of MIPL's EPC business coupled with high fund based working capital utilization and lower cash accruals in FY21 has resulted in stretched liquidity. Average utilisation of its fund-based working capital limits remained high at 90% during the trailing 12 months ended June 2021. As on March 31, 2021, MIPL had free cash and bank balance of Rs.9.27 crore (apart from lien marked fixed deposits of Rs.38.19 crore).
MIPL's debt reduction plan through sale of non-core assets i.e. land parcel (post-merger of its subsidiary) apart from sale of Uttarakhand project is envisaged to reduce the debt levels (apart from scheduled repayment obligations) to tune of around Rs.85 crore by March 31, 2022. in FY22 end. Furthermore, MIPL is also envisaged to receive around Rs.10 crore (received around Rs.2 crore in July 2021) from Madhya Pradesh Road Development Corporation Limited (MPRDC; rated CARE A(Is); Stable) towards GST difference in H2FY22. During FY22, cash accruals is expected to be around Rs.42 crore (excluding capital receipts of around Rs.4 crore) as against scheduled debt repayment obligation (principal installment, including prepayment of mortgage loan) of around Rs.60 crore in FY22. Shortfall in debt servicing, if any, will be funded by promoter group / surplus generated from group entities. Timely receipt of funds from group entities and proceeds from land parcel remains crucial from credit perspective.

Analytical approach: Standalone while factoring need based support from group entities & promoters

Applicable Criteria
Criteria on assigning Outlook to Ratings and Credit Watch
CARE's Policy on Default Recognition
Rating Methodology- Construction
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector entities
Rating Methodology- Factoring linkages in Ratings

About the Company
Vadodara-based MIPL (formerly known as Myraj Consultancy Ltd.) is an in-house EPC arm of the Madhav group promoted by Mr Ashok Khurana and Mr Amit Khurana. MIPL is also a developer-cum-operator of solar power projects and undertakes O&M of road, solar and hydro power projects of the Madhav group. The promoters of MIPL were the erstwhile promoters of MSK Projects India Ltd (MSK), which was subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	202.65	272.09
PBILDT	46.86	36.21
PAT	4.60	-12.04
Overall gearing (times)	2.11	2.29
Interest coverage (times)	1.39	1.14

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	355.92	CARE BBB-; Negative / CARE A3
Term Loan-Long Term	-	-	September 2031	52.15	CARE BBB-; Negative
Term Loan-Long Term	-	-	September 2039	72.82	CARE BBB-; Negative
Term Loan-Short Term	-	-	April 2021	0.49	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (16-Oct-20)	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (CWN) (21-Jun-19)	1)CARE BBB+; Negative (08-Oct-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	355.92	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (16-Oct-20)	1)CARE BBB-; Stable / CARE A3 (24-Jan-20) 2)CARE BBB-; Stable / CARE A3 (08-Aug-19) 3)CARE BBB+ / CARE A3+ (CWN) (21-Jun-19)	1)CARE BBB+; Negative / CARE A3+ (08-Oct-18)
3.	Term Loan-Long Term	LT	52.15	CARE BBB-; Negative	-	1)CARE BBB-; Negative (16-Oct-20)	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (CWN) (21-Jun-19)	1)CARE BBB+; Negative (08-Oct-18)

4.	Term Loan-Long Term	LT	72.82	CARE BBB-; Negative	-	1)CARE BBB-; Negative (16-Oct-20)	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (CWN) (21-Jun-19)	1)CARE BBB+; Negative (08-Oct-18)
5.	Term Loan-Short Term	ST	0.49	CARE A3	-	1)CARE A3 (16-Oct-20)	-	-

Annexure-3 Detailed explanation of covenants of the rated instrument / facilities - Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple
4.	Term Loan-Short Term	Simple

Annexure 5: Bank Lender Details
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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