Man Infraconstruction Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.50	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	162.14 (Reduced from 162.18)	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Facilities	**194.64 (Rs. One Hundred Ninety-Four Crore and Sixty-Four Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Man Infraconstruction Limited (MIL) continues to derive strength from Man group's long and well-established presence in Mumbai real estate market, vast experience of its promoters & strong project execution capabilities, healthy order book position, comfortable capital structure, and strong liquidity.

The ratings also take cognizance of improvement in project progress as well as sales velocity in its ongoing real-estate projects resulting in low funding risk. Further, ratings also take into account the envisaged receipt of funds from one of its subsidiaries [Manaj Tollway Private Limited (MTPL)] on conclusion of arbitration petition in March 2021.

The above strengths are, however, partially offset by continuous de-growth in total operating income (TOI) during last three years due to reduction in income from engineering procurement and construction (EPC) segment, losses in FY20 (refers to the period April 1 to March 31) and project implementation risk associated with ongoing real estate projects. The ratings also constrained by geographical and segmental concentration of MIL's order book, high exposure to group entities and its presence in a highly competitive & fragmented infrastructure industry.

CARE also takes cognizance that MIL has not availed moratorium on debt repayment for its bank facilities during March-August 2020, available under RBI's COVID relief program. However, its subsidiaries have availed loan under Emergency Credit Line Guarantee Scheme.

Rating Sensitivities

Positive Factors

- Growth in its order book along with successful execution thereof resulting in revenue visibility of more than 5 times of TOI for FY20 on a sustained basis.
- Improvement in the sales collection resulting in minimum Quarterly Cash Coverage Ratio (CCR) during the tenure of the loan above 1.50x.
- Committed receivables as a % of pending project cost & debt outstanding improves to more than 80%

Negative Factors:

- Achievement of lower than anticipated collections leading to deterioration in debt coverage indicators.
- Deterioration in overall gearing (including guaranteed debt) goes above unity.
- Deterioration in liquidity in case free cash & bank balance goes below Rs.50 crore on consolidated basis.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of qualified promoters in execution of EPC orders and real estate projects: MIL is a flagship company of Man group promoted by Mr Parag Shah (currently non-executive Chairman), who has over three decades of experience in the construction industry. During FY20, Mr Parag Shah stepped down from its position as Managing Director and his son; Mr Manan Shah has been appointed as Managing director of the company. Mr Manan Shah has international baccalaureate diploma from RBK International Academy and BBA from Kingston University, London. He has been associated with company since November 2012 & spearheads real estate development & marketing division. The promoters are ably supported by a team of qualified and experienced professionals and board of directors consisting of four independent directors.

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

Earlier the promoter was mainly engaged in construction of port infrastructure projects through a group company, Pathare Real Estate & Developers Limited, which was later merged with MIL. MIL has strong in-house project execution capabilities with an established track record of over 15 years in executing diverse real estate projects in the residential & commercial segments as well as port infrastructure projects. The company has completed some projects under its group companies and has executed some orders on EPC basis for third parties of around 25 million sq. ft. across segments.

Healthy order book position reflecting good revenue visibility: On a consolidated basis, the group's real estate order book increased to Rs.1316 crore as on December 31, 2020 (including construction work of Aaradhya Eastwind & Aaradhya Oneearth; projects being developed by SPVs). The consolidated order book translates into an order book to consolidated FY20 TOI ratio of 4.45x which provides healthy revenue visibility over medium term. Over the years, MIL has focussed on execution of real estate contracts as a developer through its SPVs rather than as an EPC contractor for third parties. Consequently, majority of the orders in MIL's order book is from group entities only.
The project progress of orders from third parties has remained slower than envisaged on account of delay in receipt of approvals/ payment from the principal. Hence, improvement in execution pace in a timely manner remains crucial.

Comfortable leverage position: MIL, on standalone basis continues to remain practically debt free (except mobilisation advances) with a strong net worth base, resulting in overall gearing of 0.01x as on March 31, 2020. At consolidated level, total debt of the group reduced to Rs.419 crore (Rs.455 crore as on March 31, 2019) on a net worth of Rs.688 crore as on March 31, 2020 resulting in moderate overall gearing of 0.61x as on March 31, 2020 (0.62x as on March 31, 2019). Out of total consolidated debt, external borrowing comprises of Rs.360 crore as on March 31, 2020 which reduced to Rs.342 crore as on December 31, 2020. The improvement was primarily on account of repayment of debt in one of its subsidiaries.
Further, adjusted debt factoring corporate guarantee extended by MIL to its subsidiaries/associates with a standalone debt stood at Rs.368 crore as on March 31, 2020 which reduced to Rs.365 crore as on December 31, 2020 leading to improvement in adjusted overall gearing to 0.43x & 0.41x respectively.
Furthermore, MIL being flagship & holding company of the group provides support to various group companies through unsecured loans. Hence, the adjusted gearing by deducting loans & advances granted to group companies along with investment in group companies from net worth is improved albeit remained high at 1.78x as on March 31, 2020 (3.41x as on March 31, 2019).

Improvement in sales velocity, albeit high dependence on receivables: The sales velocity in its ongoing projects as well as in completed projects has improved from Q2FY21 (refers to the period July 01 to September 30) and is equally supported by receipt of customer advances. Till March 21, 2021, the group has sold around 57% of total inventory in its ongoing as well as in completed projects. And out of sold inventory around 25% has been sold in FY21 (till March 21, 2021). However, the committed receivable as a % total debt plus balance construction cost as on December 31, 2020 has remained moderate at 55% in its four ongoing projects. Nevertheless, the collection efficiency remained good at around 65% as on December 31, 2020. Hence, the ability of MIL to maintain good sales momentum as well as collection efficiency remains crucial from credit perspective.

Outcome of arbitration petition in one of its subsidiaries (MTPL): Due to failure of the concessioning authority (Public Works Department) in fulfilling its obligations, MTPL had stopped the awarded road project in 2015 and submitted termination notice along with a claim for cost incurred. MTPL has repaid entire project debt in April 2020 through funds infused by promoter companies.
The arbitration petition filed with the Hon'ble High Court at Mumbai was awarded in favour of MTPL on August 21, 2018. The review petition filed by the Government of Maharashtra was disposed off by the Hon'ble High Court at Mumbai on March 5, 2021. Accordingly, MTPL is expected to receive Rs.358 crore plus interest aggregating approx. Rs.380 crore in Q1FY22 (refers to the period April 01 to June 30). The said funds will improve overall liquidity of the group.

Key Rating Weaknesses
Dip in TOI and cash loss during FY20: MIL, at consolidated level, derives income from operations from EPC (real estate and infrastructure), real estate segment (as a developer), and interest income on investments. Dip in income from infrastructure segment has been partially offset by growth in real estate segment. During FY20, MIL (standalone) TOI declined by 24% y-o-y to Rs.203 crore (FY19: Rs.266 crore) and MIL (consolidated) TOI declined by 29% y-o-y to Rs.296 crore (FY19: Rs. 415 crore).
The decline in TOI was primarily on account of lower than envisaged inflow of Infrastructure EPC orders as well as delay in execution of real estate EPC orders in hand due to delay in receipt of approvals from clients. Further, the construction was also hampered in last week of March 2021 due to COVID-19 lockdown. Due to significant loss of Rs.47 crore in Man Vastucon LLP, MIL, on a consolidated level, incurred a loss of Rs.12 crore during FY20 (FY19: profit of Rs.43 crore).
Furthermore, although project execution remained slow during H1FY21 due to COVID-19 led lockdown, reverse migration of labourers and monsoon, MIL has clocked TOI (standalone) of Rs.143 crore during 9MFY21 (refers to the period April 01 to

December 31) (9MFY20: Rs.147 crore). However, MIL's TOI (consolidated) grew to Rs.234 crore during 9MFY21 (9MFY20: Rs.191 crore) due to improvement in sales velocity of ongoing inhouse real-estate projects.

Project implementation risk: As on December31, 2020, MIL's subsidiaries/associates has four under construction real estate projects; 'Aaradhya Highpark- Phase I' & 'Aaradhya Eastwind' has incurred total construction cost of around 36% & 24% respectively, while other two projects launched during 9MFY21; 'Aaradhya Oneearth' and 'Atmosphere- Phase II' are at nascent stage of construction. While strong project execution capability of the promoter group, achievement of financial closure and good visibility of customer advances reduces the implementation risk to a large extent, completion of ongoing projects within envisaged timelines and cost remains crucial from credit perspective.

Geographical & segmental concentration of order book: With completion of major infrastructure projects, the group's revenue is concentrated on income from the real estate segment. Around 94% of outstanding consolidated order book as on December 31, 2020 is from real-estate segment. Furthermore, MIL is exposed to risk related to geographical concentration as the real estate development operations are primarily concentrated in the Mumbai Metropolitan Region (MMR). Hence, any downturn in the real estate industry might impact the operational performance of the company. Nevertheless, on account of its strong market position, the group has reported good sales velocity in ongoing as well as in completed projects.

Presence in intensely competitive and fragmented construction industry along with cyclical real estate industry: The real estate sector in India is highly fragmented with most of the real estate developers having a city-specific or region-specific presence. MIL is exposed to the cyclicality associated with real estate sector which has direct linkage with the general macroeconomic scenario. The sector was already witnessing downturn since last few years with the sluggish property markets on the back of high unsold inventory, low demand and stalled projects, the outbreak of COVID-19 had further aggravated the problem. However, with relaxation in lockdown norms post Q1FY21, reduction in borrowing rates for construction finance as well as housing loans has resulted in improvement in buyers' sentiments. Steps taken by the Maharashtra Government in terms of reduction in 2-3% reduction of stamp duty and reduction in the construction premium by 50% to be paid by developers is likely to boost new project launches, reduce overall cost and help the real estate players like MIL who have a strong presence and execution track record in executing orders in MMR.

Liquidity: Strong
MIL has a strong liquidity characterised by sufficient cushion in cash accruals vis-à-vis repayment obligations, healthy free cash & bank balance and unutilised bank lines. At consolidated level, free cash and cash equivalent of the company stood at Rs. 233 crore as on December 31, 2020, which is envisaged to improve further on account of receipt of arbitration claim from MTPL. Additionally, company (consolidated) has earmarked bank deposits of Rs.20 crore towards debt service reserve account and margin towards bank guarantee. Further, MIL's fund based limits of Rs.32.50 crore remained unutilised during last trailing twelve months ended December 2020 and non-fund based utilisation remained low at 24% during trailing twelve months ended December 2020, which underscores its strong liquidity position.

Analytical approach: Consolidated
MIL has ten subsidiaries, two associates & one JV. For analysis, CARE has considered operational support, equity commitments/corporate guarantee required to be extended by MIL to its subsidiaries & associates along with MIL's standalone financials. List of entities getting consolidated in the FY20 audited financials of MIL is placed at **Annexure-5.**
Earlier the approach was combined wherein CARE has combined cash flow of on-going and planned real estate projects under MIL's subsidiaries/associates. The entities considered were Man Vastucon LLP, MICL Developers LLP, Man Realtors & Holding Pvt. Ltd., Atmosphere Realty Pvt. Ltd. (ARPL). Also, the corporate guarantee given by MIL to the lenders of subsidiaries/ associates is considered while ascertaining financial risk profile of the company. However, during the year, ARPL has repaid the debt availed for which MIL has extended corporate guarantee resulting in release of corporate guarantee. Hence, the approach was revised from Combined to Consolidated.

Applicable criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Construction Sector
Rating Methodology – Real Estate Sector

About the Company

Incorporated on August 16, 2002, MIL is engaged in EPC of residential & commercial real estate and infrastructure projects. MIL is promoted by Mr Parag Shah & his son; Mr Manan Shah. MIL, later ventured into real estate sector as a developer under its own brand name in the residential segment. The company through its subsidiaries/associates enters into joint development agreement with land owner(s)/tenant(s) for developing real estate projects in MMR. Till February 28, 2021, MIL has completed seven projects of 11.96 lakh square feet (lsf) under its group.

Brief Financials (Rs. crore)	Standalone		Consolidated	
	FY19 (12M, A)	FY20 (12M, A)	FY19 (12M, A)	FY20 (12M, A)
Total operating income	265.65	203.19	415.38	295.65
PBILDT	148.14	94.78	146.19	26.84
PAT	108.52	68.73	42.56	-12.23
Overall gearing (times)*	0.00	0.01	0.62	0.61
Interest coverage (times)	120.85	89.05	2.72	0.47

*A: Audited; *including mobilisation advances as debt*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer 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	-	-	-	32.50	CARE A-; Stable
Non-fund-based-LT/ST	-	-	-	162.14	CARE A-; Stable / CARE A2+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	32.50	CARE A-; Stable	-	1)CARE A-; Stable (27-Mar-20)	1)CARE A-; Stable (27-Dec-18)	1)CARE A-; Stable (07-Dec-17)
2.	Non-fund-based-LT/ST	LT/ST	162.14	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable / CARE A2+ (27-Dec-18)	1)CARE A-; Stable / CARE A2+ (07-Dec-17)

Annexure- 3: Detailed explanation of covenants of the rated facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Capital Expenditure/Investment	Company shall not invest any amount for fixed assets without any long-term arrangement and without maintaining current Ratio of 1.25x
II. Capital Structure	Company should not effect any change in capital structure or formulate any scheme of amalgamation or reconstitution without prior approvals from lenders
B. **Non financial covenants**	
III. Undertaking of guarantee obligation	Company should not undertake guarantee obligation on behalf of any other concerns without prior approval of the lender.
IV. Issuance of Bank Guarantee on behalf of JV	In case of Bank Guarantee (BG) to be issued on behalf of Joint Venture, BG will be issued in case JV is not availing any bank facility and it will be restricted up to the extent of percentage shareholding of the Company.

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	Simple

Annexure-5: List of subsidiaries of MIL getting consolidated

Name of the entity	Subsidiary/ Associate/ Joint Venture	% shareholding by MIL as on March 31, 2020
AM Realtors Private Limited	Subsidiary	100.00%
Man Vastucon LLP	Subsidiary	99.99%
MICL Developers LLP	Subsidiary	99.99%
Man Aaradhya Infraconstruction LLP	Subsidiary	98.00%
Man Realtors & Holdings Private Ltd.	Subsidiary	66.00%
Manaj Infraconstruction Ltd	Subsidiary	64.00%
Manaj Tollway Pvt. Ltd.	Subsidiary	63.00%
Manmantra Infracon LLP	Subsidiary	60.00%
Man Projects Ltd	Subsidiary	51.00%
Starcrete LLP	Subsidiary	51.00%
Man Chandak Realty LLP	Joint Venture	50.00%
MICL Realty LLP	Associate	46.00%
Atmosphere Realty Pvt. Ltd.	Associate	17.50%

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

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