

## M K Gupta and Company

August 10, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BB; Stable / CARE A4 (Double B; Outlook: Stable / A Four) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB; Stable (Double B; Outlook: Stable) and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00 (Rs. Only)</b>		

*Details of facilities in Annexure-1*

#### **Detailed Rationale and Key Rating Drivers**

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB; Stable/CARE A4' [Double B; Outlook: Stable/ A Four] assigned to the bank facilities of M K Gupta & Company with immediate effect. The above action has been taken at the request of M K Gupta & Company and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

#### **Detailed description of the key rating drivers**

##### **Key Rating Weaknesses**

##### **Small scale of operation with moderate profitability margins**

The total operating income has witnessed improving trend during last three years (FY19-FY21) due to moderate execution of orders in hand. However, the overall scale of operations of the firm remained small marked by total operating income of Rs.56.76 crore (FY20: Rs.53.01 crore) in FY21(Prov.). The PBILDT levels and PAT levels have improved to Rs.5.74 crore (FY20:4.69 crore) and Rs.2.90 crore (FY20: Rs.2.89 crore), respectively, in FY21(Prov.). The firm has reported a cash accrual of Rs.3.27 crore (FY20: Rs.3.26 crore) in FY21(Prov.). Furthermore, the tangible networth also has improved to Rs.12.16 crore as on March 31, 2021. The small size restricts the financial flexibility of the entity in times of stress and deprives it from benefits of economies of scale.

The profit margins of the firm have improved marked by PBILDT margin of 10.12% (FY20:8.85%) though PAT margin remained moderated to 5.10% (FY20:5.46%) in FY21, Provisional.

There was restriction on the operation of the firm since the lockdown was imposed on 25th March 2020 accordingly the company was not able to operate. However, the firm had resumed its operation from May 21, 2020. Further, the company is operating partially in current situation due to the restriction imposed for the second wave of COVID 19 and the company has generated a turnover of Rs.56.76 crore as on March 31, 2021. However, the firm has not availed any moratorium but it has taken a COVID relief loan of Rs.0.82 crore from its lender.

##### **Partnership nature of constitution**

MKGC, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Furthermore, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

##### **Intensely competitive industry**

MKGC faces stiff competition from the organized as well as unorganized players in the industry. This apart, the firm faces tough competition from various regional and local players with unorganized industry being highly fragmented. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on profitability.

##### **Key Rating Strengths**

##### **Long track record of operation and experienced partners**

MKGC is into civil construction business since 1981 and thus has long track record of operations. Due to its long presence in the industry, the partners have established satisfactory relationship with its customers and suppliers. The key partner; Mr. Suresh Kumar Gupta has more than two decades of experience in the same line of the business; looks after the day-to-day operation of the firm. He is supported by the other partner Mr. Bishnu Kumar Gupta who also has more than a decade of experience in construction industry.

##### **Comfortable capital structure with satisfactory debt coverage indicators**

The capital structure of the firm though deteriorated remained comfortable marked by debt equity ratio of 0.44x (FY20:0.67x) and overall gearing ratio of 1.06x (FY20:0.95x) as on March 31, 2021, provisional, due to increase working

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

capital utilization during period. The debt coverage indicators also remained comfortable marked by interest coverage of 4.87x (FY20: 3.29x) in FY21(Prov.) and TD/GCA of 3.94x (FY20: 3.09x) as on March 31, 2021, Provisional.

#### **Healthy order book position**

The firm has an unexecuted order book position of Rs.186.35 crore (3.54x of TOI of FY20, Provisional) as on September 14, 2020 which is to be executed by July 2026. The revenue visibility seems to be good in medium term as revealed from its healthy order book position.

**Liquidity: Stretched**-Stretched liquidity marked by gross cash accruals of Rs.3.27 crore vis-à-vis repayment obligations of Rs.0.30 crore and modest bank limit utilization and modest cash balance of Rs.0.65 crore in FY21, Provisional. The average utilization of working capital limit is around 80% during last 12 months ended on July 31, 2021 as per interaction with banker. However, the current ratio stood satisfactory at 1.62x as on March 31, 2021, Provisional. The firm has not availed any moratorium but it has taken a COVID relief loan of Rs.0.82 crore from its lender.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Rating](#)

[Criteria for Short Term Instruments](#)

[CARE's default recognition policy](#)

[Financial ratios - Non-Financial Sector](#)

#### **About the company**

<b>Brief Financials (Rs. crore)</b>	<b>FY20(A)</b>	<b>FY21 (Prov.)</b>
Total Operating Income	53.01	56.76
PBILDT	4.69	5.74
PAT	2.89	2.90
Overall Gearing (times)	0.95	1.06
Interest coverage (times)	3.29	4.87

A: Audited; Prov.: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

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

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

#### **Annexure-1: Details of Instruments/Facilities**

<b>Name of the Instrument</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. crore)</b>	<b>Rating assigned along with Rating Outlook</b>
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	0.00	Withdrawn

**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	-	-	-	1)CARE BB; Stable (24-Sep-20)	1)CARE BB; Stable (23-Oct-19)	-
2.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BB; Stable / CARE A4 (24-Sep-20)	1)CARE BB; Stable / CARE A4 (23-Oct-19)	-

LT-Long term/ST-Short Term

**Annexure-3: Detailed explanation of covenants of the rated facilities:** Not applicable

**Annexure 4: Complexity level of various instruments rated for this Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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