Man Infraconstruction Limited

August 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	32.50	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	162.00 (Reduced from 162.14)	CARE A; Stable / CARE A2+ (Single A; Outlook: Stable/ A Two Plus)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)
Total Bank Facilities	**194.50 (Rs. One Hundred Ninety-Four Crore and Fifty Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Man Infraconstruction Limited (MIL) factors in significant improvement in its operational as well as financial risk profile during FY21 (refers to the period April 1 to March 31) backed by satisfactory project progress, healthy sales velocity and receipt of customer advances in its ongoing real estate projects under group companies; and low projects funding risk.

The ratings continue to derive strength from long track record and extensive experience of the promoters in the Mumbai real estate sector, diversified portfolio of completed projects, healthy order book position and strong liquidity.

The ratings also take cognizance delay in receipt of funds from one of its subsidiaries [Manaj Tollway Private Limited (MTPL)] owing to COVID-19 second wave. MTPL's arbitration petition for its project was concluded in March 2021 and the funds are deposited with the court; it is now envisaged to be received post normalisation of operations of the court.

The ratings, however, continue to remain constrained by geographical and segmental concentration risk of its revenue profile, exposure to group entities and presence in inherently cyclical real estate industry.

Rating Sensitivities

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

- Growth in its order book resulting in revenue visibility of more than 3 times of its total operating income (TOI) and successful execution thereof on a sustained basis.
- Improvement in the customer advances resulting in minimum Quarterly Cash Coverage Ratio (CCR) above 1.50x.
- Committed receivables as a % of pending project cost & debt outstanding improves to more than 90%

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

- Achievement of lower than anticipated collections leading to deterioration in CCR below 1.25x.
- Deterioration in overall gearing (including corporate guarantee extended) above unity.
- Deterioration in liquidity (free cash & bank balance goes below Rs.100 crore) on consolidated basis.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy sales momentum in ongoing projects amidst economic recovery: The group has reported sharp revival in demand in all projects during H2FY21 (refers to the period September 01 to March 31) owing to steep reduction in stamp duty and approval cost by the Maharashtra government underpinned by low home loan interest rates. Healthy sales velocity has significantly reduced its saleability as well as projects funding risk. As on June 30, 2021, the group has negligible inventory in its completed projects and around 58% of total inventory in its ongoing projects has been booked. Out of total bookings in its ongoing projects, around 40% has been booked in H2FY21. Furthermore, cancellation risk also remains low as around 90% of total units booked are registered.

Moderate project implementation risk: As on March 31, 2021, MIL's subsidiaries/associates has four under construction real estate projects. Launched in September 2018, 'Aaradhya Highpark- Phase I' & in March 2019, 'Aaradhya Eastwind' has incurred total construction cost of around 42% & 35% respectively. Other two projects, 'Aaradhya Oneearth' and 'Atmosphere- Phase II' were launched in September 2020 and are at a nascent stage of construction. Considering strong in-house project execution capability of the group, achievement of financial closure and healthy visibility of customer advances from ongoing projects, the implementation risk is reduced to a large extent.

Significant improvement in financial risk profile: MIL, at a consolidated level, derives income from EPC work (real estate and infrastructure projects), real estate segment (as a developer), and interest income on investments. This diversification reduces the concentration risk, aids scalability and efficient utilisation of resources. On a consolidated basis, despite COVID-19 restrictions, MIL's TOI grew significantly by 52% y-o-y to Rs.451 crore during FY21 primarily due to execution of current orders in hand and satisfactory project progress in projects launched during the year. During FY21, PBILDT & PAT margin improved significantly to 26.89% and 7.40% respectively [FY20: 9.08% and (4.14%)] primarily on account of increase in revenue from real estate segment which fetches better profit margin. MIL reported healthy gross cash accruals (GCA) of Rs.41 crore during FY21 as against negative GCA reported during FY20.
On a standalone basis, MIL's TOI grew by 14% y-o-y to Rs.232 crore during FY21 on account of steady execution of orders in hand. MIL's PBILDT & PAT margin improved to 50.35% (FY20: 46.65%) and 39.76% during FY21 (FY20: 33.82%) respectively.

Healthy order book position reflecting good revenue visibility: MIL order book on a consolidated basis remained at Rs.1218 crore as on March 31, 2021 (including construction work of Aaradhya Eastwind & Aaradhya Oneearth; projects being developed by SPVs). The consolidated order book translates into an order book to consolidated FY21 TOI ratio of 2.70x which provides good revenue visibility over the 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, large part of MIL's order book is from group entities only. Further, 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.

Comfortable leverage position: On a consolidated basis, as on March 31, 2021, while total debt of the company increased to Rs.520 crore (FY20 end: Rs.419 crore), external borrowings remained largely stable at Rs.355 crore (FY20 end: Rs.360 crore) on a net worth of Rs.693 crore as on March 31, 2021 (Rs.688 crore as on March 31, 2020). The increase in total debt is primarily due to infusion of unsecured loan from promoters for repayment of term debt availed by MTPL. Overall gearing ratio (consolidated) stood at 0.75 times as on March 31, 2021 (0.61x as on March 31, 2020).
MIL, on standalone basis continues to remain debt free (except mobilisation advances) with a strong net worth base, resulting in overall gearing of 0.03x as on March 31, 2021 (0.01x as on March 31, 2020). Further, adjusted debt, factoring corporate guarantees extended by MIL to its subsidiaries/associate has reduced to Rs.341 crore as on March 31, 2021 from Rs.368 crore as on March 31, 2020 leading to improvement in adjusted overall gearing to 0.37x as on March 31, 2021 from 0.43x as on March 31, 2020.

Experienced promoters and established track record of operations: Mumbai-based MIL is the 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. Currently the company is managed by his son; Mr Manan Shah who spearheads real estate development & marketing division of the company. The company has in-house construction team with strong experience in execution of real estate projects as well as port infrastructure projects and established track record of over 15 years in infrastructure industry.

Pending receipt of funds from 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 earlier expected to receive Rs.358 crore plus interest aggregating approx. Rs.380 crore in Q1FY22 (refers to the period April 01 to June 30). PWD has deposited funds in line with the order and MTPL is expected to receive funds once court is operational in normal course. Receipt of the claim amount will further strengthen overall liquidity of the group.

Key Rating Weaknesses
Geographically & segmentally concentrated revenue profile: Around 95% of MIL's order book as on March 31, 2021 on consolidated basis consists of real estate projects in the Mumbai Metropolitan Region (MMR). Hence, any downturn in the real estate industry may impact the operational performance of the company. Nevertheless, MIL enjoys the benefits in terms of raw material sourcing, contractors, and manpower management due to its long presence in the real estate sector mitigates the said risk to some extent.

Inherent risk associated with real estate sector: 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 also exposed to the cyclicality associated with the 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 market on the back of high unsold inventory, low demand and stalled projects. The outbreak of COVID-19 has further aggravated the problem.
However, with reduction in interest rates for construction finance as well as home loans, reduction in stamp duty and construction premium to be paid by developers has aided significant improvement in real estate demand and helped the developers withstand the impact of pandemic.

Liquidity: Strong
MIL has a strong liquidity characterised by adequate 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.253 crore as on June 30, 2021, which is envisaged to improve further on account of receipt of arbitration claim from MTPL. Additionally, MIL has earmarked bank deposits of Rs.21 crore towards debt service reserve account and margin towards bank guarantee. Further, MIL's fund based limits of Rs.32.50 crore remained unutilised and non-fund based utilisation remained low at 25% during trailing 12-months ended June 2021, which underscores its strong liquidity position. Moreover, as on March 31, 2021, against total pending project cost and debt, the committed receivable remained satisfactory at 80% from its four ongoing real estate projects.

Analytical approach: Consolidated
MIL has 11 subsidiaries [one added during FY21; MICL Global, INC, Delaware, USA (w.e.f. December 09, 2020)], 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 FY21 audited financials of MIL is placed at **Annexure-5.**

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 has completed seven projects under its group companies aggregating to 11.96 lakh square feet (lsf) saleable area (carpet area: 7.49 lsf) and has executed orders on EPC basis for third parties of around 25 million sq. ft. across segments. MIL through its subsidiaries/associates enters into joint development agreement with land owner(s)/tenant(s) for developing real estate projects in MMR.

Brief Financials (Rs. crore)	Standalone		Consolidated	
	FY20 (12M, A)	FY21 (12M, A)	FY20 (12M, A)	FY21 (12M, A)
Total operating income	203.19	232.42	295.65	450.60
PBILDT	94.78	116.57	26.84	121.17
PAT	68.73	92.42	-12.23	33.34
Overall gearing (times)*	0.01	0.03	0.61	0.75
Interest coverage (times)	89.05	108.36	0.47	2.09

*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	-	-	-	162.00	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 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	32.50	CARE A; Stable	1)CARE A-; Stable (06-Apr-21)	-	1)CARE A-; Stable (27-Mar-20)	1)CARE A-; Stable (27-Dec-18)
2.	Non-fund-based-LT/ST	LT/ST	162.00	CARE A; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (06-Apr-21)	-	1)CARE A-; Stable / CARE A2+ (27-Mar-20)	1)CARE A-; Stable / CARE A2+ (27-Dec-18)

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, 2021
AM Realtors Private Limited	Subsidiary	100.00%
MICL Global, INC, Delaware, USA (w.e.f. December 9, 2020)	Subsidiary	100.00%
Man Vastucon LLP	Subsidiary	99.99%
MICL Developers LLP	Subsidiary	99.99%
Man Aaradhya Infraconstruction LLP	Subsidiary	98.00%
Starcrete LLP	Subsidiary	75.00%
Manaj Infraconstruction Ltd	Subsidiary	64.00%
Manaj Tollway Pvt. Ltd.	Subsidiary	63.00%
Man Realtors & Holdings Private Ltd.	Subsidiary	62.79%
Manmantra Infracon LLP	Subsidiary	60.00%
Man Projects Ltd	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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