Madhav Infra Projects Limited

August 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	92.79 (Reduced from 104.85)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	351.92 (Reduced from 355.92)	CARE BBB-; Stable / CARE A3	Reaffirmed

Details of facilities in Annexure-1.

Rationale and 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 with a demonstrated track record of supporting the operations of the company, segmentally diversified orderbook resulting in moderate revenue visibility in medium term, moderate scale of operations, and presence of price escalation clause in majority of its road and bridge construction projects.

The ratings also take cognizance of improvement in profitability during FY23 (FY refers to the period from April 1 to March 31) and reduction in long-term debt majorly through sale of assets.

The above rating strengths, however, are partially offset by increase in working capital intensity during FY23 due to MIPL's focus on solar power projects, leveraged capital structure, stretched liquidity and modest debt coverage indicators. The ratings also factor geographical concentration of its moderate orderbook, delay in execution of solar EPC contracts which are awarded on fixed price basis, and its presence in an intensely competitive and fragmented construction industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its scale of operations while maintaining its prevailing PBILDT margin on a sustained basis.
- Efficient working capital management resulting in reduction in overall gearing below 1.00x and gross current assts days below 200 days on a sustained basis.

Negative factors

- Decline in its scale of operations owing and/or reduction in PBILDT margin on below 10% a sustained basis.
- Additional exposure to its group companies, large-size debt funded capex or elongated working capital cycle weakening its financial risk profile and liquidity position.

Analytical approach: Standalone, while factoring need-based support from its promoters and group entities.

Outlook: Stable

The 'Stable' rating outlook reflects that, MIPL will continue to benefit from the vast experience of its promoters in the infrastructure industry, moderate revenue visibility with focus on execution of solar power projects on Engineering, Procurement and Construction (EPC) basis.

Detailed description of the key rating drivers:

Key strengths

Moderate scale of operations with improvement in profitability: During FY23, MIPL's TOI decline by 17% y-o-y to Rs.322 crore (Rs.387 crore in FY22) on account of slower than envisaged execution of solar and bridge projects due to delay in clear RoW for both the projects and prerequisite approvals by the respective authority.

MIPL's PBILDT margin improved by 148 bps to 14.37% in FY23 (12.88% in FY22) with rationalisation of employee cost and other operational overheads. The improvement in PAT margin was higher by 805 bps y-o-y to 9.97% in FY23 (1.92% in FY22) primarily due to realisation of capital gain of Rs.25.43 crore on sale of land parcel at Sevasi (Vadodara) after merger of R B Real Estate Pvt. Ltd.; (RBEPL) into MIPL. CARE Ratings Limited (CARE Ratings) expects, MIPL's scale of operations to grow in FY24 on back of receipt of RoW for projects on hand and expected execution thereon.

Experienced promoter group in infrastructure sector with demonstrated track record of fund infusion for servicing debt obligations: MIPL is a part of Vadodara-based Madhav group and is an in-house EPC arm of the group. MIPL is promoted by Mr. Ashok Khurana & his son Mr. Amit Khurana, who possess vast experience in the infrastructure industry. The promoters are ably supported by team of experienced professionals for timely execution of the projects. The Madhav group has demonstrated strong project execution capability in both road & solar segment. The promoter group has demonstrated track

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

record of arranging funds through monetization of solar power/ non-core assets, recovery of advances and infusion of unsecured loans to cater its debt obligations and incremental working capital requirements of MIPL.

Segmentally diversified orderbook resulting in moderate revenue visibility: As on April 01, 2023, MIPL had an orderbook of Rs.666 crore (Rs.684 crore as on June 30, 2022) including a 15 MW solar EPC project of Rs.117 crore at Vagra Gujarat awarded post orderbook date, translating into moderate revenue visibility of 2.07x of FY23 TOI. Apart this, MIPL has been declared as a L1 bidder for two projects for execution of solar and RoB projects on EPC basis at cost of Rs.45 crore. Since last review, MIPL has been awarded two projects of Rs.130 crore for construction of bridge and railway over bridge (RoB), which are at nascent stage of execution.
MIPL's current order book is well diversified amongst various segments with major proportion of Solar EPC projects (61% of its current orderbook) followed by road (26%), bridges (6%) and railway over bridge (6%) projects. Moreover, majority of the workorders are from government entities including urban local bodies, state governments and central government undertakings which translate into moderate counter party credit risk for MIPL. Also, majority of orders on hand, excluding solar power projects, 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.

Key weaknesses

Working capital intensive nature of operations: MIPL's operations are working capital intensive and it increased during FY23 with focus of the management on solar power projects. MIPL's Gross Current Assets (GCA) days increased further to 365 days as on FY23 end (302 days as on FY22 end) on account of elongation of receivables (including retention money) and inventory days to 148 days (98 days as on FY22 end) and 118 days (91 days as on FY22 end) respectively. Consequently, MIPL's working capital cycle elongated to 146 days in FY23 end (116 days in FY22 end). CARE Ratings expects, MIPL's working capital intensity to remain high with sizeable portion of contracts (including L1) from the solar segment.

Leveraged capital structure and modest debt coverage indicators: MIPL's capital structure improved as on March 31, 2023 owing to prepayment of term debt majorly out of proceeds from sale of land parcel at Sevasi, Vadodara (Guj.), scheduled repayment of other term debt obligations along with accretion of profits to reserves. Nevertheless, the overall gearing remained moderate at 1.52x as on FY23 end (1.99x as on FY22 end) owing to almost full utilisation of sanctioned working capital limits and availment of letter of credit limits for procurement of raw materials for on-going solar EPC projects as on balance sheet date.
Debt coverage indictors, albeit improved marginally in FY23, it remained modest marked by PBILDT interest coverage ratio of 2.09x in F23 (1.84x in FY22) and total debt to gross cash accruals (TDGCA) of 5.56 years in FY23 (12.29 years in FY22). CARE Ratings expects, MIPL's capital structure and debt coverage indicators to improve with scheduled repayment of long- term debt along with accretion of profits to reserves.

Geographically concentrated orderbook with increase in fixed price contracts: MIPL's orderbook continued to remain geographically concentrated in Madhya Pradesh and Gujarat, forming around 94% of its orderbook (78% PY), exposing MIPL to any adverse changes in government policies/ political upheavals in the region. Out of its total orderbook, around 58% are slow moving and around 37% are awarded after the last review, which are at a nascent stage/ yet to commence execution. Delay in project execution is primarily attributable to counterparties for providing RoW and pre-requisite clearances.
Notwithstanding above, EPC contracts in the solar power segment are exposed to challenges w.r.t volatile polysilicon & metal prices, availability of solar modules, land allotment and receipt of prerequisite clearances. As MIPL's present orderbook (61%) is dominated by Solar EPC projects awarded on fixed price basis, execution of these contracts within revised timelines as extended by the respective authority and cost remains crucial from rating perspective.

Presence in fragmented and intensively competitive construction industry: MIPL is a mid-sized player operating in intensely competitive construction industry, wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which restricts the margins. However, thrust of the government on infrastructure development is expected to augur well for construction players such as MIPL in the medium term.

Liquidity: Stretched
MIPL's liquidity continue to remain stretched marked by increase in working capital intensity, low cushion in term of gross cash accruals vis-a-vis debt repayment obligations and low liquidity cushion in terms of unutilized working capital limits.
MIPL has realised capital gain of Rs.25.43 crore on sale of a land parcel at Sevasi, Vadodara (Gujarat) post-merger of RB Real Estate Private Limited (RBEPL) into MIPL, which has been partly utilised towards pre-payment of term loan of two lenders and

balance towards working capital requirements. As on March 31, 2022, MIPL had free cash and bank balance of Rs.9 crore (apart from lien marked FDR of Rs.34.58 crore).
MIPL envisage to generate avg. GCA of Rs.30-35 crore (FY24-FY25) against long term debt repayment obligators of Rs.23-25 crore (FY24-FY25). Average utilisation of its sanctioned fund and non-fund-based limits remained high at 83% and 77% respectively during the trailing 12 months ended on April 30, 2023.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Factoring Linkages Parent Sub JV Group
Solar Power Projects
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Vadodara-based MIPL (erstwhile known as Myraj Consultancy Limited) is an in-house EPC arm of the Madhav group promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana. MIPL is also a developer-cum-operator for 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	386.68	321.94	56.62
PBILDT	49.81	46.25	12.70
PAT	7.42	32.09	8.47
Overall gearing (times)	1.99	1.52	NA
Interest coverage (times)	1.85	2.09	2.26

A: Audited; UA: Un-audited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

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 instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	44.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	351.92	CARE BBB-; Stable / CARE A3
Term Loan-Long Term		-	-	September, 2029	48.79	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	44.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (28-Sep-22)	1)CARE BBB-; Negative (03-Sep-21)	1)CARE BBB-; Negative (16-Oct-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	351.92	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (28-Sep-22)	1)CARE BBB-; Negative / CARE A3 (03-Sep-21)	1)CARE BBB-; Negative / CARE A3 (16-Oct-20)
3	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (28-Sep-22)	1)CARE BBB-; Negative (03-Sep-21)	1)CARE BBB-; Negative (16-Oct-20)
4	Term Loan-Long Term	LT	48.79	CARE BBB-; Stable	-	1)CARE BBB-; Stable (28-Sep-22)	1)CARE BBB-; Negative (03-Sep-21)	1)CARE BBB-; Negative (16-Oct-20)
5	Term Loan-Short Term	ST	-	-	-	1)Withdrawn (28-Sep-22)	1)CARE A3 (03-Sep-21)	1)CARE A3 (16-Oct-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:
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