MRG Constructions

July 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2.00	CARE BB+; Stable	Assigned
Long Term / Short Term Bank Facilities	43.00	CARE BB+; Stable / CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of MRG Constructions (MRG) are constrained by presence in highly competitive industry with project management vulnerability, exposure to fluctuations in raw material prices and customer concentration risk. The ratings also take into consideration the constitution of the entity being in a partnership firm, the low net-worth base of the firm and high dependence on external funds for managing its working capital requirements. However, the ratings draw comfort from the experienced partners and its reputed clientele. Furthermore, the ratings also derive strength from the firm's growing scale of operations and its average financial risk profile marked by moderate capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations marked by total operating income of above Rs. 400 crores with a PBILDT margin of above 12% on a sustained basis.
- Improvement in overall gearing of the firm to below 1x on sustained basis.

Negative factors

- Higher than envisaged overall gearing impacting the financial leverage of the firm.
- Deterioration in scale of operations marked by total operating income of below Rs. 120 crores with a PBILDT margin of below 6% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall benefit from the experience of its promoters as well as through its diversified range of product offerings.

Detailed description of the key rating drivers:

Key weaknesses

Highly competitive industry with project management vulnerability:

MRG operates in a highly competitive industry and faces direct competition from various small and regional players in the market. The firm receives most of its work from National Highway Authority of India (NHAI) with an unexecuted order book position of Rs. 411.71 crore which is ~2.69x of total operating income of FY24 (refers to period April 1 to March 31) and any changes in the government spending or policy are likely to affect the revenue. Construction projects are complex and might lead to delays caused by unforeseen circumstances like adverse weather conditions and material shortages. These delays can trigger cost overruns, which in turn impact the budget and profitability of the firm.

Customer concentration risk:

MRG rely heavily on securing government tenders awarded through a bidding process and other large-scale contractors who sub-contracts some part of the contract to MRG. This exposes the firm to intense competition due to tender-based projects and might

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

lead to emerge as the lowest bidder to successfully bid for the project. Additionally, the firm's dependence on government entities for infrastructure spending introduces them to the risk of changes in budget and regulatory policies.

Volatility of raw material prices:
The firm's raw material consists of steel, cement, etc. from local vendors and hence, it is susceptible to volatility in the input prices, which may have an adverse impact on the profitability of the firm. To tackle raw material price fluctuation risk, the firm has in-built price escalation clauses in most of its contracts.

Partnership nature of constitution:
The inherent risk of withdrawal of capital in a partnership firm poses several risks that can impact the business's stability and operations. This financial strain can hinder the partnership's ability to meet obligations and invest in growth opportunities which in turn affect the operating efficiency of the organization.

Key strengths

Growing scale of operations, albeit modest profitability margins:
The income from the operations of the firm increased by ~42% to Rs. 153.15 crores in FY24, as the firm successfully got additional sub-contracts for NHAI. Also, the total operating income of the firm is envisaged to increase during FY25 supported by the firm's qualification for bidding direct contracts. In terms of profitability, MRG witnessed marginal improvement in PBILDT margin of 8.7% in FY24 as compared to 7.2% in FY23 and PAT margin of 5.91% in FY24 compared to 5.72% in FY23. Improvement in profitability margins was primarily owing to higher execution of orders in hand by the firm, which had better profitability margins. Further, the better scale of operations resulted in better absorption of fixed expenses of the firm.

Average Financial risk profile:
The overall gearing of the firm stood moderate at 1.95x as on March 31, 2024 (PY: 1.51x) and total outside liabilities (TOL) to total net worth (TNW) at 2.79x as on March 31, 2024 (PY: 2.59X). The interest coverage ratio (ICR) moderated to 6.55x during FY24 (PY: 16.26x), due to the increase in debt levels leading to high interest cost. However, the Total debt to PBILDT of firm remained moderate at 2.41x in FY24 compared to 1.83x in FY23, despite increase in debt level and was due to increase in scale of operations.

Experienced Management:
MRG Constructions is managed by three partners, Mr. Mandeep Suri, Mr. Rajiv Suri and Mr. Gurbinder Singh, with experience of more than one and half decades. Over the span of two decades, the management established long-term relationships with their suppliers and customers.

Liquidity: Stretched

The liquidity position of the firm remained stretched with a cash and bank balance of Rs. 1.64 crores as on March 31, 2024, and expected gross cash accruals of Rs. 17-18 crores against debt repayment obligations of ~Rs. 8 crores. The average working capital utilization was 81.24% for the last twelve months ending May'24 with highest utilization of 99% in Aug'23.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the firm and industry

Industry classification

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

Incorporated in 2014, MRG Constructions is a partnership firm engaged in civil infrastructure projects, with its registered office in Pathankot, Punjab. The firm is being promoted by Mr. Mandeep Singh, Mr. Rajiv Suri, and Mr. Gurbinder Singh, each holding an equal stake in the firm. Initially, the firm was operating as a subcontractor, engaged in construction of Roads and Highways. Eventually, M/S MRG constructions has been approved by NHAI for independent bidder as main contractor eligible from March 31, 2024. The firm executed many Highway & Expressway Structure in past ten years and currently firm execute various expressway & Highway in UP, Punjab, J & K, Assam & Bihar.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	27.74	108.19	153.18
PBILDT	1.44	7.79	13.32
PAT	1.10	6.19	9.05
Overall gearing (times)	1.06	1.51	1.95
Interest coverage (times)	31.82	19.21	8.28

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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 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-Term Loan		-	-	29-04-2028	2.00	CARE BB+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	43.00	CARE BB+; Stable / CARE A4+

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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	43.00	CARE BB+; Stable / CARE A4+	-	-	-	-
2	Fund-based - LT-Term Loan	LT	2.00	CARE BB+; Stable	-	-	-	-

LT: Long term; LT/ST: 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-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	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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