Madhav Infra Projects Limited

September 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	77.25 (Reduced from 92.79)	CARE BBB; Stable	Revised from CARE BBB-; Stable
Long Term / Short Term Bank Facilities	360.00 (Enhanced from 351.92)	CARE BBB; Stable / CARE A3	Revised from CARE BBB-; Stable / CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) is on account of the improvement in its revenue visibility, capital structure, and liquidity profile.

MIPL's ratings continue to derive strength from its experienced promoter group with a demonstrated track record of supporting the operations of the company. The ratings also derive strength from MIPL's moderate scale of operations and profitability.

The above rating strengths, however, are partially offset by its working capital-intensive operations, modest debt coverage indicators, and presence in an intensely competitive and fragmented construction industry. The ratings also factor geographical concentration of its moderate orderbook, with increase in solar EPC contracts which are awarded on fixed price basis.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations to above Rs.600 crore while maintaining its prevailing PBILDT margin on a sustained basis.
- Efficient working capital management resulting in reduction in TOL/TNW below unity 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 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 and moderate revenue visibility with focus on execution of both solar power and road projects on Engineering, Procurement and Construction (EPC) basis.

Detailed description of the key rating drivers:

Key strengths

Moderate scale of operations and profitability

During FY24, MIPL's TOI increased by 11% y-o-y to Rs.358 crore (Rs.322 crore in FY23) on account of increase in execution pace for the top 2-3 projects (existing as well newly awarded) and completion of key bridge projects.

MIPL's PBILDT margin stood moderate at 13.06%, though declined by 131 bps y-o-y on account of further reduction of share of solar power generation income in the entity's operations. PAT margin moderated by 475 bps to 5.22% in FY24 (9.97% in FY23), though PAT from last year included realization of capital gain of Rs.25.43 crore from sale of land parcel at Sevasi (Vadodara). Consequently, GCA for FY24 stood at Rs.29.09 crore as against Rs.45.45 crore in the previous year.

CARE Ratings Limited (CARE Ratings) expects MIPL's scale of operations to grow in FY25 on back of an adequate order book position.

Improvement in capital structure

MIPL's capital structure improved as on March 31, 2024, owing to subordination of unsecured loans, healthy operating cash flows resulting in a reduction in reliance on external debt, and accretion of profits to reserves. Nevertheless, the overall gearing and TOL/TNW remained moderate at 0.74x (1.52x as on FY23 end) and 1.05x as on FY24 end (1.86x as on FY23 end) respectively.

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

Improved order book position albeit moderate concentration in solar power projects
As on June 30, 2024, MIPL had an orderbook of Rs.982 crore (Rs. 666 crore as on April 01, 2023), translating into moderate revenue visibility of 2.40x of gross FY24 TOI. Since last review, MIPL has been awarded eight new projects of Rs.869 crore.
MIPL's present orderbook is moderately concentrated in the solar segment, with segmental proportions as follows: solar projects (77%), followed by railway overbridges (16%), bridges (5%), and roads (1%). However, company is equally focused on both road and solar segment and is likely to bid for road projects it finds attractive going forward. 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.

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 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.

Key weaknesses

Working capital intensive nature of operations with modest debt coverage indicators
MIPL's operations are working capital intensive, as reflected in high GCA days at around 314 days as on FY24 end (365 days as on FY23 end) owing to sizeable amount of margin money extended for bank guarantees and security deposits, apart from regular working capital requirement. Debt coverage indictors, albeit improved marginally in FY23, continued to remain modest marked by PBILDT interest coverage ratio of 2.25x in FY24 (2.09x in FY23) and total debt to gross cash accruals (TDGCA) of 5.57 years in FY24 (5.56 years in FY23). CARE Ratings expects MIPL's capital structure and debt coverage indicators to improve in the medium term with scheduled repayment of long-term debt along with accretion of profits to reserves.
CARE Ratings expects MIPL's working capital intensity to remain high with sizeable portion of contracts from the solar segment.

Geographically concentrated orderbook with increase in fixed price contracts
MIPL's orderbook continued to remain geographically concentrated in Madhya Pradesh and Gujarat, forming around 89% of its orderbook (94% PY), exposing MIPL to any adverse changes in government policies/ political upheavals in the region. Out of its total orderbook, around 41% are slow moving and around 44% are at a nascent stage of 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 (77%) 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: Adequate

MIPL's liquidity has improved as marked by an adequate cushion in fund-based limits and improvement in the gross cash accruals (from core operations) for meeting scheduled LT debt repayment obligations.
Going forward, MIPL has long term debt repayment obligators of Rs.22-24 crore (FY25-FY26) which is expected to be met out of its GCA, with improved order visibility and expected sustained margins.
Over last three years, company has reduced its long-term debt through asset monetisation.
Average utilisation of its sanctioned fund and non-fund-based limits remained moderate at 76% and 69% respectively during the trailing 12 months ended on June 30, 2024. Further, MIPL's operating cycle improved to 127 days as on FY24 end (from 145 days as on FY23 end), primarily on account of reduction in inventory days to 101 days (118 days as on FY23 end). As on March 31, 2024, MIPL had free cash and bank balance of Rs.3.96 crore (apart from lien marked FDR of Rs.43.71 crore).

Applicable criteria

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

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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	321.94	358.03	58.07
PBILDT	46.25	46.75	13.90
PAT	32.09	18.70	6.04
Overall gearing (times)	1.52	0.74	NA
Interest coverage (times)	2.09	2.25	2.68

A: Audited UA: Unaudited; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	360.00	CARE BBB; Stable / CARE A3
Term Loan-Long Term		-	-	September, 2029	37.25	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 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 - LT-Cash Credit	LT	40.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Aug-23)	1)CARE BBB-; Stable (28-Sep-22)	1)CARE BBB-; Negative (03-Sep-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	360.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (07-Aug-23)	1)CARE BBB-; Stable / CARE A3 (28-Sep-22)	1)CARE BBB-; Negative / CARE A3 (03-Sep-21)
3	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (28-Sep-22)	1)CARE BBB-; Negative (03-Sep-21)
4	Term Loan-Long Term	LT	37.25	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Aug-23)	1)CARE BBB-; Stable (28-Sep-22)	1)CARE BBB-; Negative (03-Sep-21)
5	Term Loan-Short Term	ST	-	-	-	-	1)Withdrawn (28-Sep-22)	1)CARE A3 (03-Sep-21)

LT: Long term; ST: Short 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-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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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