Man Infraconstruction Limited (Revised)

November 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	32.50	CARE A+; Stable	Upgraded from CARE A; Positive
Long-term / Short-term bank facilities	442.00	CARE A+; Stable / CARE A1	LT rating upgraded from CARE A; Outlook revised from Positive and ST rating reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in long-term rating of Man Infraconstruction Limited (MIL) reflects improvement in its financial risk profile in FY24 (Audited; FY refers to April 01 to March 31) and Q1FY25 (Un-audited) which is likely to sustain in medium term aided by healthy expected cashflows from ongoing and upcoming projects in the residential real estate (RE) segment and timely execution of the unexecuted orderbook for the EPC segment. The upgrade also factors in improvement in MIL's liquidity profile with free cash and cash equivalents of over ₹487 crore as on March 31, 2024, supported by issuance of equity warrants and strong operating cashflow. Liquidity is expected to remain strong with expected receipt of ₹407 crore in coming quarters from scheduled conversion of subscribed equity share warrants and limited incremental debt requirements for ongoing and proposed projects under the development management (DM) model.

MIL's total operating income (TOI) declined by 33% y-o-y to ₹1,263 crore in FY24 on a consolidated basis, contrary to CARE Ratings Limited's (CARE Ratings') earlier expectation, primarily due to delay in revenue recognition for ongoing projects. Despite decline in TOI, its profitability continued to remain healthy, supported by revenue from projects being executed under the DM model, where the company partners with other developers (through equity/non-equity participation) towards construction, marketing and funding of projects and generates income in the form of DM fees (as a percentage of project revenue), project management charges (as a percentage of construction cost) and interest income on financial support extended as loans to the developing entity. MIL's capital structure remains comfortable reflected by overall gearing below unity considering low reliance on debt to fund the project cost for ongoing RE projects and healthy accretion of profits to the net worth. The group's net worth base is expected to improve further in medium term considering preferential issue of equity share warrants of ₹543 crore resulting in favourable credit metrics in the near-to-medium term.

Ratings continue to draw comfort from MIL's experienced promoters with a track record of two decades in the real estate sector business, its track record of timely execution of projects, efficient project execution capabilities with satisfactory sales and collection and favourable location of the ongoing and upcoming projects. Going forward, MIL is inclined to undertake real estate (RE) projects under the DM and redevelopment models which are asset light in nature and provide steady cash flow visibility over the near-to-medium term. Going forward, and participation in tenders for infrastructure works (majorly ports), MIL's EPC division is likely to be focused on construction of real estate projects undertaken by MIL with its associates/JV and DM projects in return of project management consultancy (PMC) fees. CARE Ratings will continue to monitor timely execution and completion of ongoing and upcoming projects without significant increase in the estimated project cost resulting in draw down of bank borrowings in the RE segment and building the orderbook for EPC segment and maintaining strong liquidity.

However, ratings are tempered by saleability risk associated with ongoing projects with high reliance on customer advances, significant upcoming projects in pipeline resulting in exposure to execution and marketing risks, geographical concentration risk, exposure to group entities and presence in the inherently cyclical real estate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in size of project portfolio with maintenance of receivable coverage ratio over 80% while maintaining unsold inventory levels below 12 months, on sustained basis.

Negative factors

- Deterioration in the committed receivable coverage ratio below 55% on sustained basis.

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

- Significant decline in collections impacting the liquidity and resultant increase in funding from debt to total project cost over 30%, on sustained basis.
- Significant increase in the non-fund-based utilisation or corporate guarantees.

Analytical approach: Consolidated

CARE Ratings has applied the consolidated approach while arriving at MIL's ratings based on corporate guarantees extended to subsidiaries and strong operational and financial linkages between MIL and its subsidiaries, associates, and joint ventures. The company had 14 subsidiaries, 6 associates and 1 joint venture as on March 31, 2024, considered for consolidation which are listed in Annexure-6.

Outlook: Stable

The Stable outlook reflects CARE Ratings' expectation that MIL will maintain comfortable credit metrics, considering healthy cash flows from smooth execution of ongoing and upcoming RE projects marked by satisfactory sales and collection levels while benefitting from experience of its promoters in the real estate industry.

Detailed description of key rating drivers:

Key strengths

Healthy profitability in FY24 and Q1FY25; likely to sustain in medium term

The group has two revenue streams - real estate and EPC - which contribute ~50% each to the total operating revenue. On a consolidated basis, MIL's TOI declined by 33% y-o-y to ₹1,263 crore (PY: ₹1,889 crore) due to delay in revenue recognition from ongoing projects. However, profitability continued to remain healthy supported by revenue from DM project and non-operating income generated from interest income in FY24 and Q1FY25. For the current financial year, MIL is envisaging healthy cashflows above ₹1,000 crore from the ongoing projects generating from Atmosphere Phase II, Aaradhya Parkwood projects. Along with this, the upcoming projects in pipeline (excluding DM projects) have revenue potential of ~₹7,000 crore. The management's inclination towards undertaking more DM projects in medium term is expected to further strengthen MIL's profitability. Further, for the EPC segment, at the standalone basis, MIL is currently executing large order work of phase II at the fourth container terminal of JNPT port in Navi Mumbai and other infrastructure projects where the unexecuted order book is ₹615 crore. Apart from this, the group has EPC work for residential projects (by Man Group and PCMC) worth ₹48.75 crore as on June 30, 2024. Hence, the group has a total orderbook of ₹663 crore expected to be executed in next 1-1.5 years. In the future years, the management focuses on building orderbook from EPC work for residential projects in terms of project management fees and bidding for the upcoming port tenders. CARE Ratings will continue to monitor orderbook buildup for EPC segment, timely execution of ongoing and upcoming projects translating into healthy cashflow generation while maintaining profitability at current levels.

Experienced promoters and established track record of operations

Mumbai-based MIL is the Man group's flagship company promoted by Parag Shah (Chairman Emeritus), who has over three decades of experience in the construction industry. Currently, the company is managed by his son; Manan Shah; Managing Director who spearheads the real estate development and EPC division of the company. The company has in-house construction team with strong experience in execution of real estate projects and port infrastructure projects and established track record in the infrastructure industry. Long track records and experience of promoters is expected to benefit the company over the coming years.

Moderate real estate project implementation risk

The group has four ongoing projects executing under associates/JV/subsidiaries spread across Mumbai (PY: five projects). As on June 30, 2024, 57% of the total project cost had been incurred, primarily funded through customer advances. Of the total launched area, only 38% of the saleable area remains unsold indicating healthy sales velocity. Aaradhya Evoque (Juhu) project is almost complete and the completion certificate is in place. The group can fund 66% of the pending construction cost and o/s debt repayments from the committed customer advances as on June 30, 2024 (PY: 82%). Apart from this, MIL has undertaken an RE project under the DM model (Aaradhya Avaan) in Tardeo where the company will be the development manager (DM) and project management consultant (PMC). MIL infused promoter loans worth ₹216 crore in this project. MIL has given a corporate guarantee for the term debt worth ₹240 crore availed for funding the project cost. For the ongoing projects in total, the reliance on debt is less than 15% to fund the total project cost. The group has four upcoming projects which are expected to be executed with associates/JV having total saleable area of 28.80 lakh square feet (lsf) with estimated revenue of ₹7,000 crore. Two of these projects are expected to launch in current financial year. Further, two projects under DM model having total saleable area of 8.74 lsf, one of which is expected to launch in H2FY25. CARE Ratings will continue to monitor timely execution and completion of the ongoing and upcoming projects without significant increase in the estimated project cost resulting into increase in the debt levels to fund the escalated project cost.

Comfortable leverage and coverage position

At the consolidated level, MIL's capital structure continues to remain comfortable reflected by overall gearing below unity at 0.13x as on March 31, 2024, considering low reliance on debt to fund the project cost for ongoing RE projects and healthy accretion of profits to the net worth (PY: 0.20x). Adjusted overall gearing (adjusted for group exposure and corporate guarantees) also stood comfortable at 0.28x as on March 31, 2024 (PY: 0.22x). Debt coverage indicators are healthy with profit before interest, lease rentals, depreciation, and taxation (PBILDT) interest coverage at 9x and total debt/PBILDT below unity as on March 31, 2024. CARE Ratings expect the group's net worth base to improve further in medium term considering preferential issue of equity share warrants of ₹543 crore resulting into favourable credit metrics in the near-to-medium term.

Key weaknesses

Saleability risk associated with high reliance on customer advances and significant upcoming projects in pipeline resulting in exposure to execution and marketing risks

All the four ongoing projects under the group are majorly being financed through customer advances (75% of the total project cost) exposing the project to risks/ concerns like liquidity issues, project delays and cost overruns. Out of total saleable area of 20.03 lsf of ongoing projects, the company already sold ~12.58 lsf (62% of total saleable area) till June 30, 2024, at a sale consideration of ₹2,990 crore, partially mitigating the above risk to a certain extent. The company received customer advances of ₹1868 crore against the cost incurred of ₹2,091 crore till June 30, 2024. The group plans to launch four projects with total saleable area of ~28.80 lsf over the next 12 months. This exposes the group to project execution and marketing risks, although the group's past track record mitigates risks to a certain extent.

Considerable exposure in its group entities

MIL has exposure in the form of investments and loans and advances of ₹383.30 crore as on June 30, 2024, (PY: ₹250 crore) to its group entities/partnership concerns for the implementation of real estate projects. This apart, the company has also extended corporate guarantees of ₹536 crore against sanctioned debt by group companies of which the o/s amount is ~₹102 crore as on June 30, 2024. Any delay in construction of the projects covered by such guarantees, lower than expected sales and timely receipt of customer advances will be the key rating monitorable.

Risk of geographical concentration and highly fragmented real estate industry in Mumbai

Total area is being constructed in and around Mumbai, which exposes the group to the risk of geographical concentration. Further, in the last few years, Mumbai witnessed moderate growth in real estate sector with large number of renowned local and national level real estate players entering with large size projects in the city. However, given the group's brand image in Mumbai (especially in Ghatkopar and Dahisar region) and satisfactory track record of the company in execution of real estate projects, the risk is mitigated to a larger extent.

Liquidity: Strong

MIL's liquidity position is strong marked by sizeable free cash and bank balance of ₹487 crore as on June 30, 2024 (₹497 crore as on March 31, 2024). The group has projected debt repayments worth ₹80 crore in FY25 against which it is expected to generate gross cash accruals of ~₹300 crore. Average working capital limit utilisation monthly stood comfortable at less than 5% for cash credit limit and maximum utilisation of 60% for bank guarantee in the 12-months period ending Jul-2024. Further, outstanding collections (committed receivables) from sold inventory of ~₹1,122 crore cover 66% of the outstanding cost and debt as on June 30, 2024. On a standalone basis, MIL had free cash and cash equivalents above ₹330 crore as on June 30, 2024 (₹190 crore as on March 31, 2024). The company's liquidity is further supported by the expected receipt ₹407 crore from the conversion of subscribed equity share warrants into equity in FY26 (MIL issued equity share warrants on a preferential basis for ₹543 crore of which ₹135 crore have been received till March 31, 2024).

Environment, social, and governance (ESG) risks:

The activities in the real estate sector have adverse impact on environmental and social aspects considering high emission levels and waste generation from construction activities contributing to climate change, high labour intensity and related safety issues. MIL has an ongoing focus on strengthening its compliances of ESG parameters and resultantly it has taken initiatives for efficiently managing ESG risks.

- **Environmental** - The company is engaged in initiatives to reduce its carbon footprint by using low-emission materials, dust control measures, sustainable building materials, solar panels, and energy efficient machinery/equipment which reduces fuel and energy consumption.
- **Social** - Implementation of safety management system and contribution towards healthcare services for the employees are some of the initiatives.
- **Governance** - Code of conduct, Corporate Social Responsibility (CSR) and Whistleblower policies in place, and Disclosure on Corporate Governance among others.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

MIL was incorporated on August 16, 2002, for providing engineering, procurement and construction (EPC) services for residential and commercial real estate and infrastructure projects. The company is promoted by Parag Shah and his son, Manan Shah. It later ventured in the residential real estate sector as a developer under its own brand name. The company, through its subsidiaries/associates, enters joint development agreement with landowner(s)/tenant(s) for developing real estate projects in the Mumbai Metropolitan Region (MMR). Till June 30, 2024, MIL completed 13 projects having real estate regulatory authority (RERA) carpet area of ~24 lakh square feet (lsf) under its group.

Brief Financials (₹ crore) Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1889.33	1263.45	342.00
PBILDT	413.78	332.14	84.00
PAT	288.96	303.34	84.00
Overall gearing (times)	0.20	0.13	NA
Interest coverage (times)	7.23	9.72	NA

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Brief Financials (₹ crore) Standalone	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	797.79	708.33	108.00
PBILDT	140.22	159.82	37.00
PAT	165.99	195.46	38.00
Overall gearing (times)	0.03	0.05	NA
Interest coverage (times)	34.20	38.13	NA

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	32.50	CARE A+; Stable
Non-fund-based-LT/ST	-	-	-	-	442.00	CARE A+; Stable / CARE A1

Annexure-2: Rating history for 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	32.50	CARE A+; Stable	-	1)CARE A; Positive (04-Sep-23)	1)CARE A; Stable (17-Nov-22)	1)CARE A; Stable (18-Aug-21) 2)CARE A-; Stable (06-Apr-21)
2	Non-fund-based-LT/ST	LT/ST	442.00	CARE A+; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (04-Sep-23)	1)CARE A; Stable / CARE A2+ (17-Nov-22)	1)CARE A; Stable / CARE A2+ (18-Aug-21) 2)CARE A-; Stable / CARE A2+ (06-Apr-21)

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Man Projects Limited (MPL)	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
2	Manaj Tollway Private Limited	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
3	MICL Realtors Private Limited	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
4	Manaj Infraconstruction Limited	Full	Over 50% stake. Strong operational and financial linkages between the entities.
5	Man Realtors and Holdings Private Limited	Full	Over 50% stake. Strong operational and financial linkages between the entities.
6	Royal Netra Constructions Private Limited	Full	Associate. Strong operational linkages between the entities.
7	Atmosphere Realty Private Limited (ARPL) (CRISIL BBB-; Stable PR dated November 2023)	Full	Associate. Strong operational linkages between the entities.
8	MICL Global INC	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
9	MICL Developers LLP	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
10	MICL Estates LLP	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
11	Man Vastucon LLP	Full	Wholly owned subsidiary. Strong operational and financial linkages between the entities.
12	Man Aaradhya Infraconstruction LLP	Full	Over 50% stake. Strong operational and financial linkages between the entities.
13	Starcrete LLP	Full	Over 50% stake. Strong operational and financial linkages between the entities.
14	Man Infra Contracts LLP	Full	Over 50% stake. Strong operational and financial linkages between the entities.
15	MICL Creators LLP	Full	Over 50% stake. Strong operational and financial linkages between the entities.
16	MICL Builders LLP	Full	Over 50% stake. Strong operational and financial linkages between the entities.
17	Man Chandak Realty LLP	Full	Joint venture. Strong operational linkages between the entities.
18	MICL Realty LLP	Full	Associate. Strong operational linkages between the entities.
19	MICL Properties LLP	Full	Associate. Strong operational linkages between the entities.
20	Arhan Homes LLP (Formerly known as MICL Homes LLP)	Full	Associate. Strong operational linkages between the entities.
21	Atmosphere Homes LLP	Full	Associate. Strong operational linkages between the entities.

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

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About us:

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