

## Musale Construction

March 24, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	10.00	CARE B-; Stable	Reaffirmed
Short Term Bank Facilities	25.00 (Reduced from 39.50)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Musale Construction (MC) continue to factor in modest scale of operations, moderate profitability and leveraged capital structure and debt coverage indicator. The ratings further continue to be constrained by highly competitive industry and tender driven nature of operation and constitution of the entity being partnership firm.

The ratings however continue to derive strength from established track record with experienced partners and healthy orderbook position.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Sustained improvement in scale of operations to Rs.100 crore and profitability with PBILDT margin above 15%.
- Sustained improvement in its liquidity position and timely realization of debtors.

#### Negative factors

- Deterioration in liquidity profile resulting in the delays /defaults in the banking limits.

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook on the rating reflects CARE Ratings Limited's (CARE Ratings) expectation that MC will continue to benefit from its healthy order book, backed by a long track record and experienced partners.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Modest Scale of operations

Total operating income (TOI) increased by ~44% to ₹62.27 crore in FY24 (refers to April 1 to March 31) from ₹43.23 crore in FY23, driven by the successful execution of orders. Additionally, the company recorded TOI of ₹24.72 crore in 9MFY25 (refers to April 1 to December 31).

Despite having a strong track record of over three decades in project execution, the company's scale of operations remains relatively modest.

##### Moderate profitability margin

The firm's profitability experienced a notable decline, as reflected by a decrease in its PBILDT margin to 9.69% in FY24, down from 12.29% in FY23. This reduction can largely be attributed to a rise in raw material costs. Additionally, the PAT margin also contracted in line with PBILDT margin by 46 basis points, from 3.59% in FY23 to 3.13% in FY24.

##### Leveraged capital structure and modest debt coverage indicators

Withdrawal of capital by partners coupled with additional debt resulted in deterioration in the firm's capital structure. Overall gearing stood at 3.73x as on March 31, 2024, compared to 2.06x as on March 31, 2023. Debt coverage indicators remained modest during FY24 marked by Total debt to Gross Cash Accruals (TDGCA) of 8.16x (PY: 8.50x). Interest coverage was seen at 2.53x (PY: 2.26x) as on March 31, 2024.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### Highly competitive industry because of the fragmented and tender driven nature of business

The construction industry is highly fragmented, with many small and medium-scale players operating at the regional level. The tender-driven nature of contracts intensifies competition and puts pressure on profit margins. MC is a regional player primarily engaged in civil and structural works for projects such as roads and irrigation, serving a limited client base. Furthermore, the firm faces significant competition from other companies when competing for new orders.

### Constitution of entity being partnership firm

MC was established as a partnership concern, giving rise to the risk of withdrawal of capital by partners during personal contingencies. Additionally, the firm has restricted access to external borrowings, as the net worth and creditworthiness of the partners play a crucial role in lenders' credit decisions. Consequently, the firm has limited funding options and financial flexibility.

### Key strengths

#### Established track record and wide experience of promoters

Established in 1989, spearheaded by Musale family of Nagpur, firm has a track record of more than three decades which has enabled it to establish good relationship with labour contractors and the material suppliers resulting in smooth execution of projects and regular receipt of orders from them. The partners have an average experience of more than 25 years. Being in the industry for so long has helped the promoters in gaining adequate acumen about the business.

#### Healthy orderbook position supported by price escalation clause

MC has an outstanding orderbook position of Rs.154.89 crore as on February 01, 2025, to be executed over next 3 years providing a medium to long term revenue visibility. Additional comfort can be drawn from the fact that the company's customer base consists primarily of government bodies. Moreover, most of the orders include a price escalation clause, which helps safeguard profitability margins in the event of unexpected increases in raw material costs.

#### Liquidity: Stretched

The liquidity position remained stretched marked by expected gross cash accruals of Rs.2.00-2.50 crores against an annual repayment of Rs.1.14 crores in FY25. Operating cycle improved to 6 days in FY24 from 49 days in FY23. Working capital limits were fully utilised for past 12 months ending November 30, 2024. Liquidity indicators remained modest marked by current and quick ratios of 0.83x (PY: 1.00x) and 0.62x (PY: 0.61x) respectively, as on March 31, 2024. Cash and bank balance of the firm was Rs.0.96 crore as on March 31, 2024.

#### 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](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Nagpur (Maharashtra) based Musale Construction (MCN) was established in October 1989 as a partnership firm. The firm is engaged in the construction business and undertakes the construction of roads, canals and other irrigation contracts. The firm is registered as a 'Class A' contractor with Public Works Department, Maharashtra, Madhya Pradesh and Chhattisgarh. The firm executes orders only for government authorities.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	43.23	62.27	24.72
PBILDT	5.31	6.03	NA
PAT	1.55	1.95	NA
Overall gearing (times)	2.06	3.73	NA
Interest coverage (times)	2.26	2.53	NA

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

**Status of non-cooperation with previous CRA:** CRISIL, vide its press release dated July 12, 2024, reviewed the ratings assigned to the bank facilities of MC under Issuer Non cooperation category, as the company did not provide the requisite information needed to conduct the rating exercise.

**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		-	-	-	10.00	CARE B-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	25.00	CARE A4

#### 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	10.00	CARE B-; Stable	-	1)CARE B-; Stable (23-Feb-24)	1)CARE B-; Stable (30-Nov-22)	1)CARE B-; Stable (28-Sep-21)
2	Non-fund-based - ST-Bank Guarantee	ST	25.00	CARE A4	-	1)CARE A4 (23-Feb-24)	1)CARE A4 (30-Nov-22)	1)CARE A4 (28-Sep-21)

LT: Long term; ST: 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 - ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**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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### Disclaimer:

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