# M N Ramesh Engineers And Contractors
April 02, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 11.00 | CARE BB+; Stable | Assigned |
| Short Term Bank Facilities | 75.00 | CARE A4+ | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of M N Ramesh Engineers and Contractors primarily factor in the moderate scale of operations, moderate profitability and moderate networth base of Rs.33 crore as March 31, 2024. Though the capital structure is balanced at 1.05x as on March 31, 2024 (PY: 0.73x as On March 31, 2023), moderate scale and moderate networth base limits the firm's financial flexibility. The ratings also consider the partnership nature of the firm, which exposes it to risks related to capital withdrawal by partners, potentially impacting liquidity and financial flexibility. However, there have been no instances capital withdrawal in the last three years. Additionally, the sector is highly fragmented and competitive, with numerous players competing for projects. The tender based nature of operations adds to the uncertainty, as winning contracts depends on competitive bidding, which can affect revenue visibility and profitability. Furthermore, the firm's profitability is vulnerable to fluctuations in raw material prices. Any significant increase in these costs can compress margins, affecting overall profitability, although there is a price escalation clause in major work orders. Also, the firm is exposed to geographical concentration risk with 100% of the project done in the state of Karnataka.

The ratings, however, draw comfort from experienced partners and long track record in the construction sector with strong relationship with customers, thereby, enhancing firm's ability to execute projects efficiently. The ratings also derive strength from the firm's established and reputed clientele base, which ensures a steady flow of orders. The firm had a satisfactory order book, with unexecuted orders of Rs. 708 crore as at the end of January 2025 , indicating an orderbook to average sales of last three years ended FY24 of 3.32x, thus providing revenue visibility for the near to medium term. However, it is important to note that Rs. 236.32 crore of these unexecuted orders are delayed beyond the stipulated timeline, and Rs. 104.22 crore are slow-moving orders due to issues such as non-allocation of land and pending site clearance by the relevant departments. Additionally, the firm has satisfactory debt coverage indicators, indicating its ability to meet debt obligations comfortably

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

### Positive factors

- Revenue above Rs.300 Crore and PBILDT margin over 10 % on sustained basis
- TOL/ TNW below 1.5x
- Steady flow of orders and timely execution of the order book

### Negative factors

- Deterioration of the overall gearing ratio to 1.5x and above.
- Notable decline in TOI by more than 30% or PBILDT margin falling below 5% on a sustained basis.

**Analytical approach:** Standalone

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

**Outlook:** Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the firm would benefit from promoter's experience and firm's long track record to continue to aid firm in getting steady flow of orders from government tenders and Execution of pending orders.

**Detailed description of key rating drivers:**

**Key weaknesses**

**Moderate scale of operations with moderate profitability and Moderate Net worth Base**

Total Operating Income (TOI) grew at a compounded annual growth rate (CAGR) of 32.42% in last 5 years ended FY24. TOI grew by 31% to Rs.212.93 crore in FY24 over FY23 on account of better execution of work orders in FY24. The company reported TOI of Rs. 144.18 crore in 10MFY25(UA). It has modest net worth base, which stood at Rs.33.24 crore as on March 31, 2024. Moderate scale and moderate net worth base limits the firm's financial flexibility

Firm's operating profitability exhibited a stable trend with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin within the range of 8-9% in the past three years ended FY24. It stood moderate at 9.45% during FY24, with a y-o-y improvement of 181 bps on account of moderation in overheads. Profit after Tax (PAT) margin stood moderate on account of low interest and depreciation costs.

**Moderate capital structure**

Firm's capital structure stood moderate, as marked by an overall gearing of 1.05x as on March 31, 2024 (0.73x as on March 31, 2023). Its debt profile largely comprises external debt in the form of working capital and term debt for machinery and commercial vehicles. The total outside liabilities to net worth stood high at 3.17x as on March 31, 2024 (improved from 2.12x as on March 31, 2023). The moderation in capital structure was on account of higher debt availed for machinery and commercial vehicles for execution of more orders, as company's order book has also grown significantly in last 2 years.

**Profitability margins susceptible to fluctuation in raw material prices**

The raw material is the major cost driver and the prices of the same are volatile in nature therefore, the profitability remains exposed to any adverse price fluctuations in the prices of cement, sand and steel, being major cost components amongst all materials. However, all work orders include price escalation clause for the prices of all costs, which protects the margins to large extent.

**Partnership nature of the firm**

Firm's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partner. However, there have been no instances capital withdrawal in the last three years. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

**Fragmented and competitive nature of construction sector with tender based nature of operations**

Firm receives 100% work orders from government departments. All these are tender-based and the revenues are dependent on the partner's ability to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. However, the promoter's satisfactory industry experience of more than a decades mitigates this risk to some extent. Nevertheless, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive.

**Key strengths**

**Experienced partners and long track record of operations of the firm in the construction sector**

M N Ramesh Engineers and Contractors was established in the year 2005 as an individual contractor. In 2018 it was registered as a partnership firm. Mr. M N Ramesh, who has more than a decade of experience in construction industry. Firm has undertaken a number of construction contracts for Pipeline works for Water supply works and Underground Drainage Works in Urban and Rural areas.

**Reputed Clientele base with Healthy order book position albeit geographical concentration risk**

The firm collaborates with the irrigation department of the Government of Karnataka and undertakes projects for the Karnataka Urban Water Supply and Drainage Board (KUWSDB) and the Rural Drinking Water and Sanitation

Department (RDWSD). Despite having a strong and reputable clientele, MNREC is exposed to geographical concentration risk, as all its contracts are concentrated within the Karnataka region.

The firm had a satisfactory order book, with unexecuted orders of Rs. 708 crore as at the end of January 2025, indicating an orderbook to average sales of last three years ended FY24 of 3.32x, thus providing revenue visibility for the near to medium term. However, it is important to note that Rs. 236.32 crore of these unexecuted orders are delayed beyond the stipulated timeline, and Rs. 104.22 crore are slow-moving orders due to issues such as non-allocation of land and pending site clearance by the relevant departments.

**Satisfactory debt coverage indicators**

The firm's debt coverage indicators remained comfortable but showed slight deterioration. The PBILDT interest coverage ratio was 5.34x in FY24, down from 5.82x in FY23, primarily due to increased interest costs. Additionally, the TD/GCA ratio was moderate at 2.84x in FY24 compared to 2.64x in FY23, reflecting higher debt levels. Overall, the firm maintains satisfactory debt coverage indicators, demonstrating its ability to meet debt obligations comfortably.

**Liquidity**: Adequate

Firm’s Liquidity is Adequate, marked by moderate current ratio, comfortable quick ratio, moderately high utilization of its working capital limits and moderate cash accruals against debt repayments. While the current ratio was at 1.22x, its quick ratio remained comfortable at 1.2x as on March 31, 2024. Its bank limits of Rs. 10 crores were average utilised at around 41% during last 12 months ended January 2025. The entity has also availed non-fund-based limits of Rs.75 crore with average utilisation of 94.30% during last 12 months ended January 2025. While cash-flow from operations was positive at Rs.44 crore in last the FY24, unencumbered cash and bank balance was around Rs.74.48 crore as on March 31, 2024.

## Applicable criteria

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

## About the company and industry

### Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Industrials | Construction | Construction | Civil Construction |

M N Ramesh Engineers and Contractors (MNREC) was established as proprietorship firm in 2005 and converted to a partnership firm in 2018 and started its operations from June 2019 with Mr. M N Ramesh and K Girijamma as partners.MNREC executes major Water Supply Works in Karnataka Urban Water Supply and Drainage Board (KUWS & D B), Cauvery Neeravari Nigama Limited (CNNL) and Directorate of Municipal Administration (DMA) departments and is engaged in construction of Over Head Tanks, Water Treatment Plants, Sewage Treatment Plants, Jack wells, Wet wells, HDPE, DI and MS Pipeline works for Water supply works and Underground Drainage Works in Urban and Rural areas.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | January 31, 2024 (UA) |
|---|---:|---:|---:|
| Total operating income | 161.97 | 212.93 | 144.17 |
| PBILDT | 12.37 | 20.11 | NA |
| PAT | 6.51 | 11.03 | NA |
| Overall gearing (times) | 0.73 | 1.05 | NA |
| Interest coverage (times) | 5.82 | 5.34 | 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 | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 11.00 | CARE BB+; Stable |
| Non-fund-based - ST-Bank Guarantee | | - | - | - | 75.00 | 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 | Non-fund-based - ST-Bank Guarantee | ST | 75.00 | CARE A4+ | | | | |
| 2 | Fund-based - LT-Cash Credit | LT | 11.00 | CARE BB+; Stable | | | | |

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

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|---|
| 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:**
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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