

Mahesh Infracon Private Limited

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	10.00	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable/ A Four)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Mahesh Infracon Private Limited (MIPL) continues to remain constraint marked by modest scale of operations coupled with modest net worth, leveraged capital structure, project execution risk and cyclicity and seasonal associated with real estate industry. However rating derives strength from experienced and resourceful promoter, diversified revenue stream, moderate order book position and moderate interest coverage indicators.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Timely collection of customer advances and sale of commercial area in mall.
- Improvement in profitability marked by PBILDT margin and PAT Margin of 10.00% and 7.00% respectively

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Delay in project execution or cost overruns more than 25% of estimated cost leading to increase in debt or tight liquidity position

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations coupled with modest net worth

The scale of operation of the company stood modest marked by total operating income and gross cash accruals of Rs. 14.64 crores and Rs. 0.75 crores respectively in FY21 as against Rs. 16.90 crores and Rs. 0.63 crores respectively in FY20. The overall revenue declined majorly on account of covid pandemic wherein the construction work was halted and company also faced labour shortage during the Q1 and Q2 of FY21. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively modest net worth base of Rs.8.06 Crores as on March 31, 2021. The modest scale of operations in a competitive industry limits the bidding capability, pricing power and benefits of economies of scale. During 10M FY22, MIPL has generated a sale of Rs.14 crores which pertains to construction work.

Leveraged capital structure

Capital Structure of MIPL comprised majorly of unsecured loans from related parties of Rs. 25.53 crores which do not have any fixed repayment schedule and are interest free and working capital loans of Rs. 10.30 crores. Capital structure stood leveraged marked by overall gearing and debt to equity of 4.83x and 2.58x respectively in FY21 as against 2.69x and 1.48x respectively in FY20. The deterioration is majorly on account of infusion of unsecured loans by the family and friends and higher utilization of fund-based limits. Unsecured loans were utilised towards repayment of cancelled bookings in the ongoing project and higher utilization in limits were on account of advances paid to suppliers for smooth supply of raw material at different locations wherein construction work is in progress.

Project execution risk

The company is developing mall on total area of 3.66 lsf of which it has sold 0.97 lsf of area valued at Rs.45.37 cr and has realized Rs.31.42 cr till February 2022. Further the company is yet to incur construction cost of Rs.60.88 cr on the completion of mall. Due to covid the pace of construction remained slow over the past two years leading to cancellations in the bookings and refunds. The project completion date has also been extended on account ongoing pandemic. Therefore, the timely completion of mall along with the recovery of remaining receivable is key rating sensitivity.

Cyclicity and seasonality associated with real estate industry and exposure to local demand-supply dynamic

The company is exposed to the cyclicity associated with real estate sector which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. With the on-going economic conditions, the real estate industry is currently facing issues on many fronts, including subdued demand, curtailed funding options, rising costs, restricted supply due to delays in approvals, etc. thereby resulting in stress on cash flows of developers.

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

The industry has seen low demand in the recent past, primarily due to factors like sustained high level of inflation leading to high interest rates and adverse impact on the buying power and affordability for the consumers.

Key Rating Strengths

Experienced promoters along with long track record of operations

The company is currently managed by Mr. Sameer Kumar Agarwal and Ms. Nehi Agarwal. Mr. Sameer Kumar Agarwal who is a commerce graduate has an experience of almost 2 decades in real estate business through his association with MIPL and other family run businesses. Mr. Nehi Agarwal is commerce post graduate and has experience of more than decade in the industry. Both directors collectively look after the overall operations of the company. The promoters have constantly supported the company by infusing fund in form of unsecured loans which are interest free and equity capital.

Revenue visibility with moderate order book position

MIPL generates revenue from multiple streams namely construction contracts and sales of shops from Crescent Mall. In the construction segment company has unexecuted order book of around Rs. 31.30 crore as on February, 2022. The tenor of the contracts to be executed varies up to maximum of 1-2 years depending upon the type of contract bid and awarded. The moderate order book provides revenue visibility in the short to medium term for the company.

Moderate interest coverage indicators

Owing to low reliance on external debt and interest obligation (as unsecured loans are interest free) coverage indicators stood comfortable marked by interest coverage and of 1.58x in FY21 (based on Audited results) as against 3.29x in FY19.

Liquidity Position: Stretched

The liquidity indicators stood moderate, however deteriorated marked by current ratio and quick ratio of 2.25 x and 1.97x respectively as on March 31, 2021. As the company is funding the upcoming project with no debt, the liquidity requirement is currently majorly met through unsecured loans and internal accruals due to cancellations in bookings in the recent past. Liquidity is supported by unsecured loans which are interest free in nature. The unencumber cash and bank balance as on March 31, 2020 stood moderate at 3.63 crores.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Rating Methodology – Construction Sector](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Real estate sector](#)

About the Company

Kanpur based, Mahesh Infracon Private Limited (MIPL) was incorporated on November 18, 2011. The company is currently managed by Mr. Sameer Kumar Agarwal and Ms. Nehi Agarwal. Mr. Sameer Kumar Agarwal who is a commerce graduate has an experience of almost 2 decades in real estate business through his association with MIPL and other family run businesses. Mr. Nehi Agarwal is commerce post graduate and has experience of more than decade in the industry. Both directors collectively look after the overall operations of the company.

MIPL is engaged in business of real estate development and has undertaken one project- Crescent Mall and Heights and turnkey assignments for government as well as private players and bids project which are located only in Kanpur, UP.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10M FY22(P)
Total operating income	16.90	14.64	14.00
PBILDT	1.18	2.66	NA
PAT	0.53	0.64	NA
Overall gearing (times)	2.69	4.83	NA
Interest coverage (times)	3.29	1.58	NA

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Bank Overdraft		-	-	-	5.00	CARE A4
Fund-based/Non-fund-based-LT/ST		-	-	-	10.00	CARE BB-; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A4	1)CARE A4 (30-Jun-21)	1)CARE A4; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE A4 (16-Dec-19)	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	10.00	CARE BB-; Stable / CARE A4	1)CARE BB-; Stable / CARE A4 (30-Jun-21)	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (19-Feb-21)	1)CARE BB; Stable / CARE A4 (16-Dec-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - ST-Bank Overdraft	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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