

Matadeen Ramchandra Agarwal

January 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	4.50	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE BB-; Stable [Double B Minus, Outlook: Stable] to CARE D (Single D) and upgraded to CARE B; Stable [Single B; Outlook Stable]
Long Term / Short Term Bank Facilities	2.00	CARE B; Stable / CARE A4 (Single B; Outlook: Stable/ A Four)	Revised from CARE BB-; Stable/ CARE A4 [Double B Minus, Outlook: Stable] / CARE A4] to CARE D/ CARE D (Single D/ Single D) and upgraded to CARE B; Stable/ CARE A4 [Single B; Outlook Stable/ CARE A4]
Total Bank Facilities	6.50 (Rs. Six Crore and Fifty Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned of Matadeen Ramchandra Agarwal (MRA) to 'CARE D' was on account of delay in servicing interest for February 2021 on its overdraft facility for over 30 days on account of stretched liquidity. The rating has been revised to 'CARE B; Stable' as there has been no instance of default on servicing its interest obligations since March 2021.

The ratings continue to remain constrained on account of its modest scale of operations and profitability, low revenue visibility, geographical and customer concentration risk and its constitution as a partnership concern. The ratings also factor its presence in a highly competitive and fragmented construction industry and susceptibility of the firm's profitability to fluctuations in the raw material prices.

The ratings, however, continue to draw strength from the long-standing experience of the partners with an established track record of operations of more than four decades, its long-standing association with its customers and moderate profitability.

Rating Sensitivities

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

- Sustained increase in scale of operations more than Rs.40 crore with execution of orders within stipulated time frame while maintaining its profitability
- Improvement in its overall gearing below 1.5 times on a sustained basis
- Improvement in liquidity providing moderate cushion to the overall financial profile of the firm.

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

- Delay in execution of orders in hand resulting in TOI below Rs.10.00 crore
- Deterioration of capital structure with overall gearing of more than 2.50 times

Detailed description of the key rating drivers

Liquidity: Stretched

MRA delayed in servicing interest obligation on its overdraft facility for the month of March 2021 for over 30 days due to stretched liquidity resulting from delay in receipt of funds from its principal. MRA has also reported few instances of over utilisation for around 10 days of overdraft facility during 9MFY22.

MRA's operating cycle, albeit reduced, continued to remain high at 156 days in FY21 (209 days in FY20). The firm books revenue once the work is certified by the department and due to delay in work certification, inventory level remains high. MRA generated positive cash flow from operating activities of Rs.0.36 crore in FY21 as against Rs.3.19 crore in FY20. The firm had free cash and bank balance of Rs.0.26 crore as on March 31, 2021, apart from lien marked Fixed deposit of Rs.1.07 crore.

Modest scale of operations in a single segment in Gujarat

MRA operates on a modest base and its entire orderbook consists of projects awarded by Military Engineering Services (MES) in the state of Gujarat. This has resulted in high segmental and geographical concentration of its operations. Nevertheless, its total operating income (TOI) has grown during past three financial years ended FY21 (refers to the period April 01 to March 31) on

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

the back of higher execution of orders. During FY21 and 9MFY22, MRA has reported TOI of Rs.18.18 crore and Rs.15 crore respectively (Rs.16.88 crore in FY20).

Reduction in revenue visibility due to moderation in its orderbook

As on January 05, 2022, MRA's orderbook consisted of only seven projects with unexecuted work of just Rs.23 crore (Rs.38.10 crore as on September 30, 2020), resulting in low revenue visibility in the near term.

Constitution as a partnership concern

MHA's constitution as a partnership concern with moderate net worth base restricts its overall financial flexibility in terms of limited access to external funds. Furthermore, there is an inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of insolvency of partners. During FY21, partners have withdrawn capital of Rs.1.22 crore (FY20: Rs.0.15 crore).

Competitive nature of construction industry with exposure of profit margins to fluctuation in raw material prices

MRA is relatively a small construction player with major focus on civil construction projects. Given the nature of business, MRA continues to be exposed to inherent risks associated with execution of construction projects. Moreover, the civil construction sector is highly fragmented and competitive in nature with presence of large number of registered contractors, leading to aggressive biddings, which in turn results in modest profit margins for players including MRA. Furthermore, the revenue for any particular year is dependent on the successfully bidding & timely completion of projects on hand.

Furthermore, the basic raw materials required by the entity are structural steel, cement, etc; the prices of which are volatile in nature. In absence of price escalation clause, the profitability of MRA remains exposed to variations in these raw material prices. However, Despite the absence of price escalation clause in its contracts, the operating margins of MRA have remained fairly stable over the past couple of years. This was primarily on the account of the shorter tenure of the projects undertaken by MRA where effects of price variation on profitability remain limited.

Key Rating Strengths

Experienced partners with established track record of operations coupled with long standing association with reputed client

The overall affairs of the firm are looked after by its key partner, Mr. Mahesh Agarwal, who has more than three decades of experience in the construction business. Being present in the industry since 1975, it has an established track record of operations in the civil construction industry and has long-standing relationship with MES from where it gets all of its contract work.

Moderate profitability and solvency position

The profitability of MRA stood moderate with PBILDT and PAT margin of 11.34% (FY20:12.75%) and 2.91% (FY20:3.49%) respectively in FY21. While PBILDT margin of the firm has declined by 141 bps over FY20, mainly due to higher raw material cost, PAT margin declined marginally by 58 bps at 2.91% (FY20:3.49%). Further, the GCA has remained stable during FY21.

MRA's overall gearing, albeit deteriorated, remained moderate at 2.09 times as on March 31, 2021 (March 31, 2020: 1.61 times). Deterioration was on account of withdrawal of capital by the partners and increase in equipment loan and term debt availed from banks and NBFCs to meet working capital requirements. Further, debt coverage indicators of the firm also stood moderate marked by total debt to GCA of 13.05 times as on March 31, 2021 (9.58 times as on March 31, 2020). Interest coverage ratio remained moderate at 1.87 times in FY21.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Policy on Curing period](#)

[Liquidity analysis of Non-financial Sector Entities](#)

[Criteria on Short term Instruments](#)

[Rating Methodology-Construction Sector](#)

About the Company

Mount Abu-based (Rajasthan) MRA was constituted as a partnership concern by late Mr. Matadeen Ramchandra Agarwal and Mr. Amba Lal Agarwal along with their family members in 1975. Subsequently, there was change in the partners and currently, MRA is owned and managed by Mr. Mahesh Kumar Agarwal along with Mrs. Anita Agarwal, Mr. Hariom Agarwal, Mr. Ravindranath Agarwal and Mr. Shiv Kumar Agarwal. MRA is engaged in execution of civil construction contract works for projects awarded by Military Engineer Services (MES). The firm is 'A' (ranked third in the scale of SS to E) class approved contractor from MES.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (P)
Total operating income	16.90	18.18	15.00
PBILDT	2.15	2.06	NA
PAT	0.59	0.53	NA
Overall gearing (times)	1.61	2.09	NA
Interest coverage (times)	2.00	1.87	NA

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not applicable

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 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 - LT-Bank Overdraft		-	-	-	4.50	CARE B; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.00	CARE B; 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 - LT-Bank Overdraft	LT	4.50	CARE B; Stable	1)CARE D (24-Jan-22)	1)CARE BB-; Stable (03-Nov-20)	1)CARE BB-; Stable (25-Nov-19)	1)CARE BB; Stable (16-Nov-18)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2.00	CARE B; Stable / CARE A4	1)CARE D (24-Jan-22)	1)CARE BB-; Stable / CARE A4 (03-Nov-20)	1)CARE BB-; Stable / CARE A4 (25-Nov-19)	1)CARE BB; Stable / CARE A4 (16-Nov-18)

* Long Term / Short Term

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

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

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