

## Vijay M. Mistry Construction Private Limited

October 28, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term/ Short Term Bank Facilities	250.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Facilities	<b>250.00</b> (Rs. Two Hundred Fifty Crore Only)		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vijay M. Mistry Construction Private Limited (VMCPL) continue to derive strength from established track record of its promoter group in the construction of bridges and flyovers of over three decades, geographically diversified order book position from state and central government agencies having low counterparty risk, strong fixed asset base to support in-house execution of contracts, presence of price escalation clause in most of the contracts and increased thrust of government on infrastructure development. The ratings also take cognizance of VMCPL's comfortable capital structure, debt coverage indicators and adequate liquidity.

The above strengths are, however, partially offset by VMCPL's relatively moderate scale of operations, susceptibility of its profitability to raw material price volatility, working capital-intensive nature of operations along with its presence in an intensely competitive and fragmented construction industry. The ratings also factor dip in profitability during FY21 (refers to the period April 01 to March 31) due to increase in input prices.

### Rating Sensitivities

Positive Factors:

- Growth in its TOI to above Rs.500 crore along with improvement in PBILDT margin above 11% on a sustained basis.
- Improvement in its working capital intensity by way of reduction in its gross current asset days to below 120 days on a sustained basis.

Negative Factors:

- Delay in execution of orders on hand reducing its TOI to below Rs.200 crore in FY21 (FY refers to the period April 1 to March 31).
- Reduction in its PBILDT margin to below 8%.
- Deterioration in its capital structure leading to an overall gearing beyond 0.75x.
- Increase in its working capital intensity with gross current asset days increasing to beyond 225 days.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters along with established track record of operations:** Promoted by Late Mr. Vijay Mistry, VMCPL is now managed by his son, Mr. Niraj Mistry, who holds a master degree in civil engineering and possesses more than two decades of experience in construction of bridges. During Q4FY16 and Q1FY18, Elecon group (through Emtici Engineering Limited and its associates) acquired a controlling stake in VMCPL. The promoters are ably supported by team of experienced professionals for project planning, execution and other business operations of the company. The company has an operational track record of more than three decades and has developed an expertise in execution of complex bridge structures.

**Geographically diversified order book with limited counter party risk:** As on August 31, 2021, VMCPL had order book of Rs.490.93 crore thereby providing healthy revenue visibility in the medium term. The ratio of order book to total operating income (TOI) stood at 1.74x as on August 31, 2021 (4.32x as on June 30, 2020). The order book is envisaged to improve in near term as VMCPL has been declared as the lowest bidder for two contracts aggregating to Rs.387 crore.

The order book of VMCPL is geographically well-diversified across Rajasthan (43% of order book), Dadar & Nagar haveli (28%), Gujarat (22%) and Maharashtra (7%). Receipt of project work for construction of a riverfront project in Kota and Jetty work at Kandla Port have segmentally diversified the order book, which was earlier concentrated towards construction of Bridges. The entire order backlog of VMCPL is from government entities translating into low counter-party credit risk for the company.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Sizeable own fleet of construction equipment and machinery:** Over the years, VMCP has made significant investment in building its own fleet of equipment and machinery required for project execution. VMCP's gross block of tangible assets increased to Rs.90.80 crore as on March 31, 2021 (Rs.85.22 crore as on March 31, 2020). VMCP now owns a major portion of equipment and machinery required for project execution, which helps the company in timely execution of the projects on hand.

**Comfortable capital structure and debt coverage indicators:** VMCP's capital structure continued to remain comfortable with overall gearing of 0.22x as at FY21 end (0.26x as at FY20 end) attributed to improvement in net worth base backed by accretion of profit to reserve along with scheduled repayment of its equipment loans.

Debt coverage indicators, albeit deteriorated, continued to remain comfortable marked by an interest coverage of 2.75x during FY21 (PY: 4.78x) and total debt to GCA of 2.34 years (PY: 1.85 years). VMCP has been very conservative on availing of bank debt and manages its working capital requirement and capex requirements largely through internal accruals resulting in comfortable capital structure.

**Improved prospectus due to thrust of government on infrastructure development:** The government has come up with many initiatives in road construction segment such as build-up of new rural roads and upgradation of existing rural roads under Pradhan Mantri Gram Sadak Yojna (PMGSY), broadening of national highways and providing connectivity to tribal areas, has offered various opportunities for construction companies. However, the sector has faced challenges owing to suspension of construction activities due to spread of COVID-19 pandemic along with reverse migration of labour. However, the situation has gradually improved and the execution pace has picked up in recent quarters. Also, various measures have been taken by the government under the Atma Nirbhar scheme, has also helped the entity to cope with COVID-19 led consequences.

#### Key Rating Weaknesses

**Moderate scale of operations along with reduction in profitability:** VMCP's TOI grew up by 49% y-o-y to Rs.281.98 crore during FY21 (Rs.191.38 crore in FY20) backed by timely execution of project work as envisaged. During the 5MFY22 (refers to the period April 01 to August 31), VMCP has reported contract receipts of Rs.162.72 crore, which is significantly higher than contract receipts of Rs.55.29 crores during 5MFY21. All the projects are under progress and is expected to be accomplished within scheduled timeframe.

VMCP's PBILDT and PAT margin reduced significantly to 4.82% in FY21 (PY: 10.73%) and 0.42% in FY21 (PY: 3.60%) respectively. The reduction was primarily on account of increase in the cost of raw material and site & admin expenditure. VMCP has lodged price escalation claim with NHAI and other principal authorities for reimbursement of cost escalation due to increase in prices. Partial claim amount is received in H1FY22 and balance is expected to be received by the end of Q3FY22.

**Susceptibility of profitability to fluctuations in input prices:** Considering execution period of contracts awarded to VMCP usually range from 18-24 months, its profitability remains susceptible to fluctuations in the input prices. However, majority of order book (95%) of VMCP's order book as on August 31, 2021 have a built-in price escalation clause for major components, which mitigates the risk to an extent.

**Presence in a highly fragmented and competitive construction industry:** VMCP is a mid-sized player operating in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies, these projects are lucrative for all the contractors and hence are highly competitive. Nevertheless, aggressive bidding by the company or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on the margins. However, VMCP's rich experience, long standing track record in the construction industry (especially bridges) which stands as distinct advantage for the company against its peers.

#### Liquidity: Adequate

VMCP has an adequate liquidity position marked by a free cash and bank balance of Rs.2.40 crore as on March 31, 2021 (besides lien-marked FDs of Rs.33.30 crore). Although, EPC segment has high working capital intensity, VMCP's operating cycle remained lean at 20 days during FY21 (PY: 31 days) with the improvement of Gross Current Assets days. The Gross current asset days improved to 188 days during FY21 (220 days in FY20) on account of its focus on improving collection efficiency. The current and quick ratio remained healthy at 1.41x and 1.20x respectively as at March 31, 2021 (1.59x and 1.44x as at March 31, 2020).

Moreover, VMCP has modest working capital limits and a significant part of working capital requirement is met through its internal accruals and free cash and bank balances. Against TOI of around Rs.282 crore, VMCP has a working capital limit of just Rs.5.50 crore (reduced from Rs.6.50 crore in FY20). The average utilisation of its fund-based limits also remained adequate

around 50% during the trailing twelve months ended on September 2021. Going forward, as against debt repayment obligation of Rs.4-5 crore during FY22-FY24, VMCP is envisaged to generate cash accruals of Rs.25-27 crore during the period.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology – Construction Sector](#)

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

[Criteria for Short Term Instruments](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### About the Company

Promoted by Late Mr. Vijay M Mistry, Gujarat-based VMCP was incorporated in 1988 to take over the existing business operations of the proprietorship firm M/s Vijay M Mistry on a going concern basis, which has been operational since 1950s. VMCP is engaged in infrastructure development activities; mainly construction of bridges, flyovers, harbour works and other allied construction activities.

VMCP is accredited "AA class" (highest in the scale of AA to E) contractor by Road & Building department (R&B), Government of Gujarat (GoG), A1 class from Deendayal Port Trust (DPT) and has executed contracts for various reputed public as well as private organizations.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	191.38	281.98
PBILDT	20.54	13.59
PAT	5.86	1.19
Overall gearing (times)	0.26	0.22
Interest coverage (times)	4.78	2.75

A: Audited;

**Status of non-cooperation with previous CRA:** None

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument/ facilities:** Please refer Annexure-3

**Complexity level of various instruments rated for this company:** Please refer 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
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	250.00	CARE BBB+; Stable / CARE A2

#### 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	250.00	CARE BBB+; Stable/ CARE A2	1) CARE BBB+; Stable/ CARE A2 (06-Oct-20)	1) CARE BBB+; Stable/ CARE A2 (07-Oct-19)	1) CARE BBB+; Stable/ CARE A2 (24-Sep-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 the Instrument	Complexity Level
1.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/ market intermediaries/ regulators or others are welcome to write to care at [www.careratings.com](http://www.careratings.com) for any clarifications.

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**About CARE Ratings:**

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