Madhav Infra Projects Limited

January 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities*	168.85	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short term Bank Facilities*	374.04	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Reaffirmed**
Total facilities	**542.89 (Rupees Five hundred Forty Two crore and Eighty Nine lakh only)**		

Details of instruments/facilities in Annexure-1

** reclassified bank facilities of Rs.0.96 crore from Long-term/ Short-term to Long-term*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) continue to derive strength from extensive experience of the promoters and its established presence of over two decades in the construction industry, its long term association with reputed government authorities, ownership of sizeable fleet of equipment & machinery aiding its operating profitability, segmentally diversified order book, stable income from its existing and newly commissioned solar power plants along with operation and maintenance (O&M) income from its mini hydro project at Chambal and stable industry outlook on the back of various initiatives taken by Government of India (GoI) to improve the prospects of infrastructure sector.

The ratings also take cognizance of improvement in its order book reflecting good revenue visibility over medium term and moderate geographical diversification of its order book.

The ratings, however, continue to remain constrained on account of MIPL's moderate scale of operations, leveraged capital structure, moderate debt coverage indicators, working capital intensive nature of operations, stretched liquidity, presence in highly competitive & fragmented construction industry and susceptibility of its profitability to volatile raw material prices.

Rating Sensitivities

Positive sensitivities

- Timely execution of its present orders along with growth in diversified order book which will result in healthy revenue growth and improved accruals on a sustained basis.
- Reduction in overall gearing below 1.50x through reduction in engineering, procurement and construction (EPC) debt.
- Improvement in PBILDT interest coverage above 4x.

Negative Sensitivities

- Increase in working capital intensity which in turn deteriorates its liquidity position
- Any further investment in its group entities or undertaking debt-funded capex which have an impact on its leverage position and debt coverage indicators

Detailed description of the key rating drivers

Key Rating Strength

Improvement in order book position reflecting good revenue visibility: MIPL's order book position improved to Rs.614 crore as on September 30, 2019 from Rs.387 crore as on March 31, 2019. Order book to total operating income (TOI) for FY19 is 2.04x reflecting good revenue visibility over medium term. The execution pace in its major contracts improved during H1FY20 after receipt of requisite clearances. Further, MIPL also has low counterparty credit risk as majority of the orders are from government authorities.

Furthermore, the order book is well diversified segmentally across bridges, roads, solar and other civil orders. Execution of these orders within envisaged timelines and cost would remain crucial from credit perspective.

Experienced promoter group with established track of the group in infrastructure sector: Mr Ashok Khurana, the principal promoter of MIPL, has a vast experience in the industry and looks after the overall management of the Madhav group. He is ably supported by his son, Mr Amit Khurana who has an experience of over two decades in the road sector and looks after the day to day operations of the group companies. Along with qualified promoters, MIPL has a vast team of engineers & project managers who assist the top management in executing projects.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The group has an established track record in executing relatively large-sized road projects and has demonstrated sound project execution capability with timely execution of the contracts in both road and solar sector. MIPL is an in-house EPC arm of the group.

Stable income from own renewable energy projects with timely receipt of payments: MIPL has operational solar power plants aggregating 17.18 MW at various locations across India, which provides stable income to the tune of Rs.14-16 crore with healthy PBILDT margin. Along with this, MIPL also undertakes O&M of a mini hydro project at Chambal. MIPL continued to receive timely payments for its solar projects and O&M receipts during H1FY20.
During H1FY20, MIPL reported revenue of Rs.11.16 crore from all the operational solar power plants and O&M of Chambal hydro project.

Ownership of sizeable equipment and machinery aids its operating profitability: Over last three years, MIPL has added latest equipment & machinery required for executing road & solar power projects. Consequently, gross block (including capitalized projects) of MIPL stood at Rs.294.14 crore as on March 31, 2019 (Rs.252.23 crore as on March 31, 2018). Large investment in machinery and efficient deployment of the resources helps MIPL in timely execution of projects and better profitability as indicated by healthy PBILDT margin of 24.34% during H1FY20 (FY19: 21.32%). However, debt-funded investment in fleet of machinery has led to high interest cost and moderate debt coverage indicators.

Stable demand outlook due to thrust of government on infrastructure development: The Government of India has been undertaking several steps for boosting the infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown since past couple of years. The same is expected to drive growth opportunities, subject to availability of adequate working capital.

Key Rating Weaknesses
Moderate scale of operations: During FY19 MIPL's TOI moderated to Rs.301.66 crore due to slower than envisaged movement in orders, mainly on account of delay in availability of various regulatory clearances. However, during H1FY20, MIPL reported marginal improvement in its TOI to Rs.117.27 crore (H1FY19: Rs.109.02 crore) on account of steady execution of orders in hand. Further, owing to EPC nature of business of MIPL, its TOI is highly skewed towards the second half of the financial year.

Leveraged capital structure and moderate debt coverage indicators: Overall gearing, albeit improved, remained high at 2.14x as on September 30, 2019 (2.44x as on March 31, 2019), primarily on account of scheduled repayment of term loan, lower mobilization advances & LC acceptances as on half year end. Further, during H1FY20, promoters and group companies infused unsecured loan of Rs.9.44 crore to support incremental working capital requirements of the company.
Debt coverage indicators remained moderate in H1FY20 marked by stable PBILDT interest coverage of 1.88x (FY19: 1.84x) and high total debt to gross cash accruals (GCA) of 11.40x (FY19: 11.58x) due to low cash accruals and high debt servicing obligations.

Working capital intensive nature of operations: Being EPC contractor, MIPL has high working capital intensity as it receives payments based on progress of the project based on milestone achieved during the tenure after proper certification of work. Generally project execution time ranges from 12 months to 24 months. MIPL's working capital cycle elongated during FY19 to 137 days (FY18: 77 days) on account of increase in receivables days and inventory days. The average collection period remains relatively high at 130 days in FY19 due to blockage of funds as retention money. However, during H1FY20, receivables and inventory reduced by around Rs.13 crore and Rs.24 crore respectively, which improved MIPL's liquidity position marginally.

Geographical concentration of MIPL's revenue profile: Majority of the orders awarded to MIPL are in the state of Madhya Pradesh (MP) which exposes MIPL's growth prospects to the macro and socio-political upheavals in the region. However, MP offers a relatively conducive and stable environment for construction companies and is one of the most urbanized and fastest growing state of India, over the past few years with significant development in the road segment. Also, MIPL is favorably placed for its contracts in MP as it has in-house managerial resources and better control on execution due to close proximity of orders. Further, MIPL has taken steps to expand its geographical presence and MIPL has been awarded three new orders amounting to Rs.291 crore in Maharashtra, Karnataka and Delhi during H1FY20.

Susceptibility of its profitability to volatile raw material prices: Execution period of MIPL's contracts usually ranges from 12-24 months, hence its profitability remains susceptible to volatile raw material prices in case of any significant adverse variation in raw material prices or any delay in project execution. However, presence of an inflation index-linked price escalation clause in most of the present orders on hand mitigates this risk to an extent, depending upon the extent of coverage of the actual increase in input prices.

Liquidity: Stretched
MIPL's liquidity position remained stretched with almost full utilization of its fund-based working capital limits during the trailing 12 months ended November 2019, increase in working capital intensity of the EPC business, capex towards solar capacity & fixed assets and lower than envisaged cash accruals in FY19. The month end utilization of non-fund based working capital facilities remained at 66% during trailing 12 months ended November 2019.
However, the promoter group has regularly infused funds to support the operations of MIPL, either in form of unsecured loan or preference capital. During FY19 and H1FY20, promoters infused unsecured loans amounting to Rs.4.78 crore and Rs.9.44 crore respectively. MIPL had free cash and bank balance of Rs.0.82 crore as on September 30, 2019 (apart from lien marked fixed deposits of Rs.38.72 crore as on September 30, 2019)
Further, during FY20, cash accruals is expected to be around Rs.33-35 crore as against scheduled debt servicing obligations (principal installment) of around Rs.39-40 crore in FY20. The shortfall is going to meet through unsecured loans from promoter group which is already infused, release of funds from GST receivables and up-streaming of cash surplus from SPVs.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook and credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology – Construction Sector]
[Rating Methodology- Private Power Producers]
[Rating Methodology- Solar Power Projects]
[Financial Ratios-Non Financial sector]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company
Vadodara-based MIPL (formerly known as Myraj Consultancy Ltd.) is an in-house EPC arm of the Madhav group promoted by Mr Ashok Khurana and his son Mr Amit Khurana. MIPL is also a developer-cum-operator of solar power projects and undertakes O&M of road, solar and hydro power projects of the Madhav group.
The promoters of MIPL were the erstwhile promoters of MSK Projects India Ltd (MSK), which was subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited (WEL; rated CARE AA-; Stable / CARE A1+)].

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	309.95	301.61
PBILDT	59.82	64.31
PAT	7.00	3.27
Overall gearing (times)	2.41	2.42
PBILDT Interest coverage (times)	1.68	1.84

A: Audited;
During H1FY20, MIPL reported TOI of Rs.117.27 crore

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	374.04	CARE BBB-; Stable/ CARE A3
Term Loan-Long Term	-	-	March 2031	128.85	CARE BBB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Stable	1)CARE BBB-; Stable (08-Aug-19) 2)CARE BBB+ (Under Credit watch with Negative Implications) (21-Jun-19)	1)CARE BBB+; Negative (08-Oct-18)	1)CARE BBB+; Positive (09-Oct-17) 2)CARE BBB+; Stable (14-Apr-17)	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	374.04	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (08-Aug-19) 2)CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications) (21-Jun-19)	1)CARE BBB+; Negative / CARE A3+ (08-Oct-18)	1)CARE BBB+; Positive / CARE A2 (09-Oct-17) 2)CARE BBB+; Stable / CARE A3+ (14-Apr-17)	-
3.	Term Loan-Long Term	LT	128.85	CARE BBB-; Stable	1)CARE BBB-; Stable (08-Aug-19) 2)CARE BBB+ (Under Credit watch with Negative Implications) (21-Jun-19)	1)CARE BBB+; Negative (08-Oct-18)	1)CARE BBB+; Positive (09-Oct-17) 2)CARE BBB+; Stable (14-Apr-17)	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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