Madhav Infra Projects Limited

April 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	162.79 (enhanced from 130)	**CARE BBB+; Stable (Triple B Plus; Outlook:Stable)**	**Reaffirmed**
Long-term / Short-term Bank Facilities	239	**CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable)/ (A Three Plus)**	**Reaffirmed**
Total Facilities	**401.79 (Rupees Four Hundred and One crore and Seventy Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) derive strength from the vast experience of the promoters of the Madhav group in the construction business, established track record of operations in execution of solar and road construction projects across multiple locations and its moderate revenue visibility on the back of strengthening of its order book as on January 31, 2017. The ratings also take cognizance of improvement in profitability during FY16 (refers to the period April 01 to March 31) and 9MFY17 on account of stable total operating income (TOI), continuous investment in equipments and machinery which helps MIPL in timely execution of projects, and the renewed thrust of the government on road and infrastructure development.

The ratings, however, continue to remain constrained by deterioration in its leverage, high working capital intensity, susceptibility of its margins to volatile raw material prices due to fixed price nature of contracts on hand, intense competition in the industry due to high degree of fragmentation and execution challenges faced in the construction industry.

MIPL's ability to significantly scale up its operations through timely execution of the existing orders received on EPC basis, further grow its order book, effectively manage its working capital requirements along with improvement in its profitability and capital structure are the key rating sensitivities. Furthermore, the ability of MIPL to operate its solar power plants at envisaged capacity utilization factor (CUF) along with timely receipt of payments from its sole power off taker shall also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong project execution capabilities in the construction sector

MIPL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana. Mr Ashok Khurana possesses over three decades of experience in handling relatively large-sized projects and has demonstrated a satisfactory track record of timely execution of the contracts in various segments of the construction sector.

Established track record in execution of solar and road projects along with growth in order book provides moderate revenue visibility

MIPL is an in-house EPC arm of the Madhav group and majority of the projects executed by MIPL were from its group entities. MIPL completed multiple large-size road and solar projects under EPC mode in a time bound manner.

MIPL had an order book Rs.498 crore as on January 31, 2017 spread across 4 segments and 6 states. Order book to TOI of FY16 was 1.63x indicating moderate revenue visibility over the medium term. During 10MFY17, MIPL was awarded nine new projects across road, solar and civil segment aggregating Rs.268 crore.

Stable operating income expected from its own renewable energy projects

MIPL commissioned 14.40 Mega Watt (MW) grid interactive solar PV power project in Uttarakhand on March 23, 2016 within envisaged cost and time parameters. During 10MFY17, the unit reported average capacity utilisation factor (CUF) of 15.78%. MIPL has signed a long-term power purchase agreement (PPA) with Uttarakhand Power Corporation Limited (UPCL, Dehradun) for supply of 12-MW solar power for a period of 25 years at a tariff of Rs.7.74/Kilowatt-hour (kWh) for the entire period of 25 years.

MIPL also set up a 1 Mega Watt (MW) rooftop solar power project in Delhi. The total capacity is spread across 4 sites and the last site was commissioned in October 2015. During 10MFY17, the plant reported PLF of 14.32%.

The Operation and Maintenance (O&M) of Chambal Mini Hydel Project of 1.80 MW (3 x 600 kW) for Madhya Kshetra Vidhyut Vitran Company Limited, Bhopal was performed as per schedule and the company earned Rs.3.13 crore in FY16.

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

Stable TOI along with improvement in profitability

MIPL has reported continuous growth in its TOI on the back of steady execution of orders received from group entities and EPC contracts received from government entities. The TOI of MIPL (before capitalization of its own project revenue) grew by 11% during FY16 over FY15. Road and solar power projects contributed 57% (62% in FY15) and 39% (37% in FY15), respectively, of its TOI during FY16.

During FY16, the PBILDT margin of MIPL improved by 841 bps to 18.86% mainly due to execution of projects with own machinery and inhouse team and O&M receipts from Chambal hydro project. The interest cost increased substantially in FY16 on account of debt-funded acquisition of equipments and machinery, higher working capital bank borrowings and project debt for executing hydro and solar projects. Consequently, despite substantial improvement in PBILDT margin, the PAT margin improved by 123 bps to 4.19% during FY16.

As per the provisional results for 9MFY17, MIPL reported TOI of Rs.182 crore (Rs.214 crore in H1FY16; before capitalisation) and PAT of Rs.6 crore (Rs.5 crore in H1FY16).

Key Rating Weaknesses:

Moderate leverage and debt coverage indicators

The promoters also infused Rs.34.95 crore during FY16 towards its equity commitment for the solar power project in Uttarakhand. Total debt of MIPL increased y-o-y basis on account of debt-funded addition of fixed assets including plant & machinery/ equipments/ vehicles required for road construction work, availing corporate/term loan for general corporate purposes and executing two projects as principal in FY16 as against executing the contracts purely on EPC basis till FY15. Consequently, overall gearing deteriorated as on March 31, 2016. Furthermore, the debt coverage indicators characterised by Interest coverage ratio (PBILDT / Interest) and total debt / Gross Cash Accruals also deteriorated in FY16.

Exposed to raw material price fluctuation risk due to fixed price contracts

The orders of MIPL are fixed price in nature which exposes the company to risk arising due to adverse fluctuation in the prices of key raw materials.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios - Non- Financial Sector]

About the Company

Vadodara-based MIPL (formerly known as Myraj Consultancy Ltd.) is a resultant entity after amalgamation of four group companies, namely, MIPL, Aashka Construction Pvt. Ltd. (ACPL), Elia Construction Pvt. Ltd. (ECPL), and MSK Finance Ltd. (MFL). The appointed date for amalgamation was April 1, 2010. MIPL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana 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)].

During FY16, MIPL earned a PAT of Rs.9.10 crore on a total operating income (TOI) of Rs.217.15 crore as against PAT of Rs.7.77 crore on a TOI of Rs.262.78 crore during FY15. As per the provisional results for 9MFY17, MIPL reported TOI of Rs.182 crore and PAT of Rs.6 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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	NA	NA	NA	40.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	239.00	CARE BBB+; Stable / CARE A3+
Term Loan-Long Term	NA	NA	March 31, 2031	122.79	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB+; Stable	-	-	1)CARE BBB+ (26-Feb-16)	1)CARE BBB (08-Dec-14)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	239.00	CARE BBB+; Stable / CARE A3+	-	-	1)CARE BBB+ / CARE A3+ (26-Feb-16)	1)CARE BBB / CARE A3 (08-Dec-14)
3.	Term Loan-Long Term	LT	122.79	CARE BBB+; Stable	-	-	1)CARE BBB+ (26-Feb-16)	-

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