Madhav Infra Projects Limited

August 08, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	167.89 (reduced from Rs.174.65 crore)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BBB+ (Triple B Plus); Under credit watch with negative implications**
Long-term/ Short term Bank Facilities	375.00	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable / A Three)**	**Revised from CARE BBB+/CARE A3+ (Triple B Plus / A Three Plus); Under credit watch with negative implications**
Total facilities	**542.89 (Rupees Five hundred Forty Two crore and Eighty 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) have been removed from credit watch with negative implications on account of publication of financial results by the company for the quarter and year ended on March 31, 2019 on the stock exchange. The ratings were placed under credit watch in view of delay in publication of the financial results for the aforesaid period beyond the stipulated regulatory timeframe. CARE takes note of moderation in revenue visibility, debt coverage indicators and liquidity of the company, during FY19.

The revision in the ratings assigned to the bank facilities of MIPL takes into account lower than envisaged generation of total operating income and gross cash accruals during FY19 (refers to the period April 1 to March 31) due to slow progress in project execution and high interest overheads associated with build-up of debt-funded asset base over past few years.

The revision also takes into account moderation in revenue visibility of the company with a tepid order book; and moderation in debt coverage indicators & liquidity owing to high debt repayment obligations in near to medium term vis-à-vis moderate cash accruals and elongation of working capital cycle. The incremental working capital requirements were largely funded through funds raised by MIPL during FY19 through monetization of its stake in various special purpose vehicles (SPVs), alongwith infusion of unsecured loans from promoters and largely full utilization of the existing working capital limits.

The ratings continue to derive strength from MIPL's experienced and resourceful promoters alongwith the company's established track record in the construction sector, its long term association with reputed government authorities, segmentally diversified order book, sizeable own equipment fleet and stable demand outlook with government thrust on infrastructure sector. The ratings also take cognizance of successful commissioning of MIPL's roof top solar projects at various locations in Madhya Pradesh (MP) & Rajasthan and timely receipt of monthly payments from its existing solar power projects.

The ratings continue to remain constrained on account of the company's moderate scale of operations with geographically concentrated presence, leveraged capital structure, susceptibility of profitability to volatile raw material prices and presence in highly fragmented and competitive construction industry.

Ability of MIPL to timely execute the existing orders and procure new orders with a geographically diversified profile, improve its profitability and capital structure along with efficient working capital management shall be the key rating sensitivities. This apart, achievement of the envisaged Plant Load Factor (PLF) in the operational solar and hydro power plants and timely receipt of payments from the respective off-takers shall also be crucial from the credit perspective.

Furthermore, extent of MIPL's exposure to group entities or any debt-funded capex; and its impact on company's liquidity shall also be a key rating monitorable.

Detailed description of the key rating drivers

Slow project progress with moderation in cash accruals and revenue visibility: During FY19, pace of execution in MIPL's orders was lower than envisaged with slow movement in two major projects in MP, mainly on account of delay in availability of various regulatory approvals due to political upheavals. This restricted MIPL's income to a moderate level of around Rs.301.66 crore during FY19 (FY18: Rs.309.98 crore) and also resulted in a dip in the gross cash accruals (GCA) from around Rs.36 crore in FY18 to around Rs.29 crore in FY19; owing to high interest overheads.

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

Furthermore, MIPL had a moderate order book of around Rs.387 crore as on March 31, 2019 as against an order book of Rs.772 crore as on March 31, 2018; resulting in a moderate revenue visibility. During 4MFY20, the company received a new order of Rs.33 crore from Airport Authority of India in Karnataka; however further traction in order procurement shall remain crucial from credit perspective.

Leveraged capital structure and moderation in debt coverage indicators: The capital structure of MIPL continued to remain leveraged with a high overall gearing to 2.47x as on March 31, 2019 (2.41x as on March 31, 2018); owing to high debt availed over the years for build-up of construction fleet for EPC segment and of solar power assets, alongwith high working capital requirements.
Debt coverage indicators of the company moderated during FY19 with reduction in cash accruals and continued high debt levels; as indicated by an increase in total debt to GCA to over 11x at FY19 end and a moderate PBILDT interest coverage of around 1.84x (FY18: 1.68x).
Furthermore, with sizeable debt repayment obligations in near to medium term, high working capital requirements and a limited revenue visibility, any further deterioration in capital structure and debt coverage indicators would remain crucial from credit perspective.

Moderation in liquidity with increased working capital requirements: Liquidity of the company has moderated due to increase in working capital requirements and sizeable debt repayment obligations. Over last three years, an increase in inventory and receivable days has resulted in elongation in the company's operating cycle from around 17 days in FY17 to over 120 days in FY19; alongwith high gross current asset days of over 300 days in FY19. This resulted in almost full utilization of fund-based working capital limits during trailing twelve months ended April 2019, alongwith deployment of funds of around Rs.53 crore raised by MIPL through monetization of its stake in various SPVs in funding the incremental working capital requirement of the company. However, company had an un-utilized bank guarantee limits of over Rs.100 crore as on June 30, 2019 which shall aid order procurement. Also, a portion of funds blocked in receivables at end of FY19 pertains to goods and service tax, and is expected to be released in near term.

Key Rating Strengths
Experienced promoter group and established track of the group in construction sector: MIPL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana. Mr Ashok Khurana has an experience of more than three decades in executing various projects in the construction sector (roads & solar power). 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. The companies together are referred to as 'Madhav' group.
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. MIPL is an in-house engineering, procurement & construction (EPC) arm of the group.

Reputed clientele and segmentally diversified order book: Over the years, the company has built up a reputed client base mainly including government agencies such as Madhya Pradesh Road Development Corporation (rated CARE A (Is); Stable) and Oil & Natural Gas Corporation Limited (rated, CARE AAA; Stable/ CARE A1+); thus translating into low counterparty credit risk.
Furthermore, the order book is well diversified segmentally across bridges, roads, solar and other civil projects. Bridge projects constitute 42% of the order book, followed by road projects at 32% and balance 26% are from solar and other civil projects.

Stable income from own renewable energy projects with timely receipt of payments: MIPL has two operational solar power plants at Uttarakhand (14.40 MW) & Delhi (1 MW) and also undertakes operation and maintenance (O&M) of a hydro project at Chambal. During FY19, MIPL has successfully completed new roof-top solar power plants at various locations in MP and Rajasthan. All the projects were successfully commissioned during FY19. MIPL has signed a Power Purchase Agreement (PPA) with multiple off takers for its solar power plants at various locations and it continued to receive timely payments for its existing solar power projects during FY19.
During FY19, all the operational solar power plants and O&M of Chambal hydro project reported total revenue of Rs.19.93 crore.

Sizeable own fleet aids operating profitability: MIPL's presence in solar power generation segment alongwith sizeable equipment fleet built up for the EPC business has aided its operating profitability, as indicated by healthy PBILDT margin of 21.33% during FY19 (FY18: 19.31%). MIPL has during FY17-FY19 made significant investment in building its own fleet of commercial vehicles, equipment and machinery required for executing the EPC projects, resulting in an EPC gross block of around Rs.152 crore as on March 31, 2019 (Rs.128 crore as on March 31, 2017). However, debt availed for this capex has also resulted in high depreciation and interest charges, restricting the PAT margin of the company and resulting in generation of moderate gross cash accruals, vis-à-vis sizeable debt repayment obligations.

Stable demand outlook due to thrust of government on infrastructure development: Thrust of the government for road construction & renewable energy through initiatives such as buildup 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, targeted solar power generation capacity of 100GW till FY22 has offered various opportunities for construction companies. However, execution challenges including delays in land acquisition and forest clearances, regulatory clearances, weak financial health of discoms, bottleneck in transmission infrastructure, elongated working capital cycle due to longer gestation period of the projects and restricted bank limits beleaguer the industry.

Key Rating Weaknesses
Geographically concentrated order book: Operations of MIPL are geographically concentrated in the states of MP and Gujarat with 75% orders to be executed in MP, 15% to be executed in Gujarat and balance 10% in other states as per outstanding order book as on March 31, 2019. The concentration of major order book in two states exposes MIPL's growth prospects to the macro and socio-political upheavals in the regions. However, MIPL has an established track record in executing orders in these states and also benefits from shared resources due to proximity of projects.
Procurement of geographical diversified orders shall remain crucial from credit perspective.

Susceptibility of its profitability to volatile raw material prices: Execution period of MIPL's contracts usually ranges from 12-36 months, hence its profitability remains susceptible to volatile raw material prices in case of any significant adverse variation in raw material prices or any significant delay in project execution attributable to MIPL. 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:
Liquidity of the company remains moderate with high working capital requirements attributable to maintenance of adequate inventory levels and credit period offered to reputed clientele; alongwith funds blocked in security deposits and retention money. This, alongwith large part of revenue booking undertaken in Q4 of a financial year, results in high operating cycle and high utilization of working capital limits. Furthermore, over the years MIPL has also deployed funds for capex towards building-up solar and EPC assets; resulting in high debt repayment obligations.
However, promoters have regularly infused funds to support the operations of MIPL, either in form of unsecured loan or preference capital. Further, during FY19, MIPL monetized its stake in various SPVs for around Rs.53 crore; which was used in funding incremental working capital requirement. Large part of this stake was purchased by a promoter group entity.
As on March 31, 2019, MIPL had free cash and bank balance of Rs.7.61 crore (excluding margin money and debt service reserve account in the form of fixed deposits of Rs.42.66 crore) and reported cash accruals of Rs.29 crore during FY18. MIPL is expected to generate cash accruals of around Rs.34 crore and against this MIPL has committed debt repayment obligations of around Rs.40 crore, in FY20. The shortfall is expected to be met through release of funds from GST receivables, up-streaming of cash surplus from SPVs and infusion of funds by the promoter / promoter group entities.

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: Factoring linkages in ratings
Rating Methodology: Manufacturing Companies
Rating Methodology: Private Power Producers
Rating Methodology - Infrastructure Sector Ratings (ISR)
Financial ratios - Non- Financial Sector

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 few road 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	309.98	301.66
PBILDT	59.85	64.35
PAT	7.00	3.27
Overall gearing (times)	2.41	2.47
PBILDT Interest coverage (times)	1.68	1.84

*A: Audited; * based on abridged financial results published on BSE.*

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	-	-	-	375.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term	-	-	March 2031	127.89	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+ (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	375.00	CARE BBB-; Stable / CARE A3	1)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	127.89	CARE BBB-; Stable	1)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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About CARE Ratings:

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