Madhav Infra Projects Limited

October 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	174.65 (reduced from 182.13)	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**
Long-term/ Short term Bank Facilities	375.00 (reduced from 380.00)	**CARE BBB+; Negative/CARE A3+ (Triple B Plus; Outlook: Negative / A Three Plus)**	**Revised from CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive / A Two)**
Total facilities	**549.65 (Rupees Five hundred Forty Nine crore and Sixty Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short term rating assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) is on account of increase in its working capital intensity and lower than envisaged cash accruals during FY18 (refers to the period April 01 to March 31) resulting in deterioration in the liquidity position, elongation of working capital cycle and increase in reliance on bank borrowings and inter corporate loans for working capital requirements. The state of affairs also resulted in deterioration of short-term debt coverage indicators during FY18.

The ratings, however, continue to derive strength from the vast experience of promoters of the Madhav group, MIPL's established track record of execution in the construction sector, its healthy order book with low counter-party risk, continuous investment in equipment and machinery to aid project execution, timely receipt of monthly invoices raised for solar power and increased thrust of the government on infrastructure development.

The ratings continue to remain constrained due to MIPL's leveraged capital structure, susceptibility of its profitability to adverse fluctuation in raw material prices owing to fixed price nature of contracts on hand, geographical concentration of its order book in only two states [Gujarat and Madhya Pradesh (M.P.)] and MIPL's presence in an intensely competitive and fragmented construction industry which is facing severe execution challenges.

The ratings also take cognizance of lower than envisaged income from all revenue segments, delay in commissioning of 2.4 megawatt (MW) solar power plant and dip in profitability during FY18.

The ability of MIPL to maintain its healthy order book, achieve the envisaged scale of operations along with healthy profitability, improve its capital structure while efficiently managing its incremental working capital requirements are the key rating sensitivities.

Furthermore, MIPL's ability to timely commission the new solar power plants, achieve envisaged Plant Load Factor (PLF) from operational solar power plants and Chambal hydro plant along with timely receipt of payments from the respective off-takers shall also be crucial from the credit perspective.

Notwithstanding above, any new debt-funded capex or investment by MIPL in its group companies adversely affecting MIPL's financial risk profile shall also be a key rating monitorable.

Outlook: Negative

CARE expects the revenue from EPC income to remain under stress on account of execution challenges in projects on hand. Furthermore, the income from solar power segment is also expected to remain below envisaged level due to issues faced w.r.t. availability of power grid in Uttarakhand and lower than envisaged generation from Delhi rooftop project.

Apart from above, reliance on bank borrowings and inter corporate loans for meeting incremental working capital requirements of the EPC business segment is expected to deteriorate MIPL's overall gearing and debt coverage indicators in the near term.

The outlook, however, may be revised to 'Stable' in case MIPL is able to scale up its operational performance by executing the EPC projects on hand within stipulated timeframe, reduce its reliance on debt and improve its overall gearing to below 1.5x by September 30, 2019 and receive the claim filed for loss of solar power income due to unavailability of grid.

Detailed description of the key rating drivers

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

Moderate liquidity: Increase in working capital intensity of the EPC business, elongation of MIPL's operating cycle to 60 days as compared to 17 days during FY17 and lower than envisaged cash accruals during FY18 resulted in moderation in overall liquidity of the company. The cash flow from operations too reduced to Rs.48 crore during FY18 as against Rs.59 crore in FY17. Incremental working capital requirements were met through bank borrowings and increase in inter corporate loans.

Stable scale of operations and declining profitability: MIPL operates on a moderate base and its TOI remained largely stable during FY18. EPC segment contributed 93% (Rs.288 crore) of MIPL's TOI during FY18. While EPC income declined by 9% y-o-y, it was substantially lower than envisaged for FY18 on account of unavailability of Right of Way (ROW) & regulatory approvals and cancellation of an order due to non-availability of bank guarantee limits. PBILDT margin, albeit declined by 347 bps, remained healthy at 19.31% during FY18 owing to higher share of solar power projects in TOI which has a higher margin than EPC segment. The gross cash accruals stood at Rs.36 crore during FY18 as against Rs.42 crore in FY17.
As per the provisional results for Q1FY19, the performance of MIPL remained subdued with a TOI of Rs.50.91 crore and PAT of Rs.0.17 crore as against TOI of Rs.79.63 crore and PAT of Rs.1.57 crore during Q1FY18.

High overall gearing along with deterioration in debt coverage indicators: The overall gearing remained high at 2.41x as on March 31, 2018 (2.38x as on March 31, 2017) primarily on account of increase in inter corporate loans during FY18 and debt-funded addition of construction equipment and machinery. Owing to increase in total debt and reduction in gross cash accruals during FY18, the total debt to gross cash accruals ratio moderated to 8.95x (6.82x in FY17) and PBILDT interest coverage ratio moderated to 1.68x (2.33x in FY17).
During H1FY19, MIPL has sold its stake in some of its group companies in order to raise funds for bidding of new projects and reduce overall debt. The ability of MIPL to significantly improve its capital structure over the medium term remains a key rating monitorable.

Key Rating Strengths
Experienced promoters with strong project execution capabilities in roads and solar power sector: The promoters of Madhav group have over three three decades of experience in the execution of relatively large-sized projects in various segments of the construction sector, viz. roads, industrial buildings and residential buildings. The promoters have also demonstrated sound project execution capability in the solar segment over the past few years. The group's infrastructure development activities for both road and solar projects are largely carried out by MIPL as an in-house EPC arm of the group.

Healthy order book: MIPL's order book stood healthy at Rs.772 crore as on March 31, 2018 (including new projects awarded till August 2018) as compared to Rs.755 crore as on June 30, 2017. Order book to TOI for FY18 was 2.49x; indicating healthy revenue visibility over the medium term. In the present order book, road projects constituted 83%, followed by solar projects at 11% and balance was operations & maintenance works and civil works. The outstanding orders has low counterparty risk as majority of the orders are from government entities including urban local bodies, state governments and central government undertakings, having sound financial risk profile.

Stable income from own renewable energy projects along with high profitability: The revenue from MIPL's two operational solar power plants at Uttarakhand (14.40 MW) and Delhi (1 MW) and operation and maintenance (O&M) of a hydro project at Chambal contributed 6% to MIPL's TOI for FY18. Albeit marginal decline in income from these three projects, they continued to provide a stable annual income of around Rs.19 crore to MIPL along with high PBILDT margin of over 90%.
Furthermore, MIPL is presently setting up three new solar power plants aggregating to 3.80 MW at Kota, Bhopal and Rajasthan. The commissioning of the solar power plants at Kota and Bhopal was delayed by almost a year and now the total capacity of 3.80 MW is envisaged to be operational from October 2018. Total cost of the ongoing project is expected to be around Rs.17.21 crore, to be funded in debt:equity (including subsidy) ratio of 1.30:1. MIPL has achieved financial closure for the project.

Owns sizeable fleet of construction equipment and machinery resulting in relatively better operational efficiencies: Over the years, MIPL has built up an asset base comprising equipment, commercial vehicles and machinery. Large investment in machinery and efficient deployment of these resources helps MIPL in timely execution of the projects and generate better operational profitability. During FY18, MIPL purchased equipment aggregating Rs.11 crore (Rs.54 crore in FY17) which augmented its gross block to Rs.139 crore as on March 31, 2018 (Rs.128 crore as on March 31, 2017).

Thrust of the Government on infrastructure development: The increasing thrust of the Union Government towards infrastructure development including house for all, development of smart cities, thrust on better healthcare, education, etc., is likely to be beneficial for the construction sector in terms of providing increased business opportunities. However, challenges beleaguering the segment such as delays in financial closure, clearances and land acquisition, shifting of utilities, lowest price-based tendering and high interest rates remains crucial to be addressed for smooth order execution.

Key Rating Weaknesses

Geographically concentrated operations: Operations of MIPL are geographically concentrated in the states of MP and Gujarat with 61% orders to be executed in MP, 33% to be executed in Gujarat and balance 6% in other states. However, MIPL has an established track record in executing orders in these states and also benefits from shared resources due to proximity of projects. Nevertheless, geographical diversification of operations shall remain crucial from credit perspective.

Profitability exposed to raw material price fluctuation risk: Orders of MIPL are generally fixed price in nature which exposes the company to raw material price fluctuation risk. However, this risk is partially mitigated through management's experience of bidding for the projects taking into account the likely price variation in the EPC cost.

Analytical approach:
Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[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)	FY17 (A)	FY18 (A)
Total operating income	338.13	309.98
PBILDT	77.04	59.85
PAT	7.74	7.00
Overall gearing (times)	2.38	2.41
PBILDT Interest coverage (times)	2.33	1.68

A: Audited

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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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
Term Loan-Long Term	-	-	March 2031	134.65	CARE BBB+; Negative
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE BBB+; Negative
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	375.00	CARE BBB+; Negative / CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB+; Negative	-	1)CARE BBB+; Positive (09-Oct-17) 2)CARE BBB+; Stable (14-Apr-17)	-	1)CARE BBB+ (26-Feb-16)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	375.00	CARE BBB+; Negative / CARE A3+	-	1)CARE BBB+; Positive / CARE A2 (09-Oct-17) 2)CARE BBB+; Stable / CARE A3+ (14-Apr-17)	-	1)CARE BBB+ / CARE A3+ (26-Feb-16)
3.	Term Loan-Long Term	LT	134.65	CARE BBB+; Negative	-	1)CARE BBB+; Positive (09-Oct-17) 2)CARE BBB+; Stable (14-Apr-17)	-	1)CARE BBB+ (26-Feb-16)

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