Madhav Infra Projects Limited

October 09, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	182.13 (enhanced from 162.79)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Long-term/ Short term Bank Facilities	380.00 (enhanced from 239.00)	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive / A Two)**	**Revised from CARE BBB+ / CARE A3+ (Triple B Plus / A Three Plus)**
Total facilities	**562.13 (Rupees Five Hundred Sixty Two crore and Thirteen 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) takes into account improvement in the company's profitability along with gross cash accruals during FY17 (FY refers to the period from April 1 to March 31), moderate utilisation of fund-based working capital limits and improvement in its debt coverage indicators.

The ratings continue to be underpinned by the vast experience of promoters of the Madhav group in the construction business, MIPL's established track record of operations in execution of multiple solar and road construction projects across geographies, healthy revenue visibility on the back of healthy order book with relatively low counter-party risk, continuous investment in own equipment and machinery aiding timely project execution and thrust of the government on road and infrastructure development.

The ratings also derive strength from the growth in the company's total operating income (TOI) during FY17 with steady execution of orders awarded in the engineering, procurement and construction (EPC) segment along with timely receipt of bills raised from the operational solar power plants.

The ratings, however, continue to remain constrained by its leveraged capital structure, susceptibility of its profitability to volatile raw material prices due to fixed price nature of contracts on hand and geographical concentration of its operations in a competitive construction industry, also grappled with execution challenges. The ratings also take cognizance of lower than envisaged plant load factor (PLF) of its Uttarakhand solar power plant and its ongoing debt-funded capex for installation of two new solar power plants aggregating 2.40 megawatt (MW).

MIPL's ability to further scale up and geographically diversify its operations through timely execution of the EPC orders on hand and growth in its order book, maintain its profitability and effectively manage its working capital requirements with improvement in capital structure are the key rating sensitivities. Furthermore, MIPL's ability to successfully implement its new solar power plants & operate its existing solar power plants at envisaged PLF along with timely receipt of payments from the sole off-takers of the respective plants shall also be crucial from the credit perspective.

This apart, any major investment in group companies adversely affecting the company's capital structure or debt coverage indicators shall also be a key rating monitorable.

Outlook: Positive

CARE believes that MIPL will continue to benefit over the medium term from its established position in engineering, procurement and construction (EPC) segment and its increasing presence in the solar power generation.

Financial risk profile of the company is expected to improve on the back of sustained execution of the orders on hand, healthy order inflow with concurrent bidding activities and healthy profit margin in contracts awarded to the company.

Liquidity is expected to be stable in the medium term with availability of cash generated from operating activities for working capital requirements, as no major capital expenditure or investment is envisaged in the medium term. The outlook, however, may be revised to 'Stable' in case of delay in order execution, reduction in profitability due to either aggressive bidding or unfavorable raw material price movements or deterioration in capital structure on account of increase in reliance on working capital borrowings or any large-size debt-funded capex or investment.

Detailed description of the key rating drivers

Key Rating Strengths

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

Improvement in liquidity: Liquidity of MIPL improved during FY17 with improvement in cash flow from operations from Rs.21.23 crore in FY16 to Rs.58.55 crore in FY17, which also resulted in moderate utilisation of fund-based limits at 68% during trailing 12 months ended June 2017. Profitability of the company improved during FY17 which resulted in a two-fold increase in its gross cash accruals to Rs.41.13 crore in FY17, from Rs.20.41 crore in FY16. Operating cycle also remained low at 22 days in FY17.

Growth in scale of operations and profitability: MIPL's TOI grew by 56% y-o-y to Rs.338.01 crore in FY17 backed by a 49% growth in income from EPC segment, alongwith commencement of income from company's solar power plants in Uttarakhand and Delhi. Road projects contributed 95% of the EPC income during FY17.
PBILDT margin also improved by 394 bps y-o-y to 22.80% during FY17 due to economies of scale, use of in-house equipment and machinery, which results in higher operational efficiency, and healthy PBILDT margin of around 96% in the solar segment.
As per the provisional results for Q1FY18, MIPL reported TOI of Rs.79.63 crore with a PAT of Rs.1.57 crore, as against a TOI of Rs.20.20 crore with PAT of Rs.0.99 crore in Q1FY17.

Increasing investment in construction equipment and machinery to meet its growing project execution requirements: Over the years, MIPL has built up an asset base comprising equipment, commercial vehicles and machinery commensurate with the increase in its scale of operations. Gross block of the company stood at Rs.128 crore as on March 31, 2017 (Rs.74 crore as on March 31, 2016).

Experienced promoters with strong project execution capabilities in construction sector: The promoters of Madhav group have over three three decades of experience in execution of relatively large-sized projects in various segments of the construction sector, viz. industrial buildings, roads and residential buildings and have also demonstrated sound project execution capability in the solar segment over 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.

Significant growth in order book: MIPL's order book increased to Rs.755 crore as on June 30, 2017 from Rs.498.00 crore as on January 31, 2017. Order book to TOI for FY17 was 2.23x; indicating healthy revenue visibility over the medium term. Orders are to be executed in the states of Madhya Pradesh (MP) and Gujarat with road projects constituting 85%, followed by solar projects at 11% and the balance was for construction of bridges, buildings and operation and maintenance (O&M) contracts.
Majority of the outstanding orders of MIPL are from government entities including urban local bodies, state governments and central government undertakings, translating into low counterparty credit risk for the company.

Stable income from own renewable energy projects: MIPL has set-up two solar power plants as developer-cum-operator in Uttarakhand and Delhi aggregating to 15.40 MW. The company also undertakes O&M of a hydro project for a fixed monthly rent. The solar power plants together provide stable income of around Rs.16 crore per annum, while the annual income from O&M of the hydro power plant is around Rs.3 crore. These projects generate healthy profitability for the company.
MIPL is also setting up two roof-top solar power plants of 1.20 MW each in Bhopal and Kota. Total cost of these two plants is envisaged to be around Rs.11.25 crore, envisaged to be funded with debt of Rs.6.52 crore and the balance through internal accruals and subsidy from government. MIPL has achieved financial closure for the project.

Stable demand outlook for construction industry albeit with competition and execution challenges: Outlook for construction industry remains stable with increased focus of the government on infrastructure development including roads, bridges, and smart cities, which is likely to augur well for the order inflow in the construction sector. However, challenges beleaguering the segment such as delays in clearances and land acquisition, shifting of utilities, lowest price-based tendering and high interest rates remain crucial to be addressed for smooth order execution.

Key Rating Weaknesses
Leveraged capital structure: MIPL's overall gearing remained high at 2.39x as on March 31, 2017 (2.33x as on March 31, 2016) on account of debt-funded addition of fixed assets such as plant & machinery/ equipment/ vehicles required for road construction work, execution of three projects on developer-cum-operator basis and availment of corporate/term loan for general corporate purposes. Consequently, debt coverage indicators of the company also remained moderate, albeit witnessed improvement in FY17 due to increase in cash profit. Total debt to gross cash accruals witnessed improvement from 11.28x in FY16 to 6.76x in FY17, while PBILDT interest coverage remained stable at 2.27x in FY17 (2.26x in FY16) despite significant rise in interest costs in FY17 on account of increase in debt.

Geographically concentrated operations: Operations of MIPL are geographically concentrated in the states of MP and Gujarat. Out of the orders on hand, 67% are to be executed in MP, while the balance in Gujarat. However, the company has established track record in executing orders in these states and also benefits from shared resources due to proximity of projects. Furthermore, both these states have a conducive operating environment. Nevertheless, geographical diversification of operations shall remain crucial from credit perspective.

Profitability exposed to raw material price fluctuation risk due to fixed price contracts: 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. 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 mainly engaged in construction activities on EPC basis, alongwith recent foray in solar power generation. MIPL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana of Madhav group, which comprises various entities in road and solar power generation segment, including MIPL. MIPL is an in-house EPC arm of the group and undertakes various projects in construction segment, mainly including roads and solar projects. 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 A+; Stable / CARE A1+)].

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	217.15	338.10
PBILDT	40.96	77.09
PAT	9.10	7.67
Overall gearing (times)	2.33	2.39
PBILDT Interest coverage (times)	2.26	2.27

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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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+; Positive
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	380.00	CARE BBB+; Positive / CARE A2
Term Loan-Long Term	-	-	March 2031	142.13	CARE BBB+; Positive

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+; Positive	1)CARE BBB+; Stable (14-Apr-17)	-	1)CARE BBB+ (26-Feb-16)	1)CARE BBB (08-Dec-14)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	380.00	CARE BBB+; Positive / CARE A2	1)CARE BBB+; Stable / CARE A3+ (14-Apr-17)	-	1)CARE BBB+ / CARE A3+ (26-Feb-16)	1)CARE BBB / CARE A3 (08-Dec-14)
3.	Term Loan-Long Term	LT	142.13	CARE BBB+; Positive	1)CARE BBB+; Stable (14-Apr-17)	-	1)CARE BBB+ (26-Feb-16)	-

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