Madhav Infra Projects Limited

October 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities*	165.09 (Reduced from 168.85)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed and outlook revised from stable
Long Term / Short Term Bank Facilities*	371.44 (Reduced from 374.04)	CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)	Reaffirmed and outlook revised from stable
Short Term Bank Facilities*	1.10	CARE A3 (A Three)	Reaffirmed
Total Facilities	537.63 (Rs. Five Hundred Thirty-Seven Crore and Sixty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1
**Reclassified bank facilities of Rs.2.60 crore from Long –Term/Short-Term to Long-Term & Short-Term*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) continue to derive strength from its experienced promoter group with an established track record in infrastructure sector, healthy order book position reflecting good revenue visibility over medium term with low counterparty credit risk, sizeable investment in fixed assets, and steady income from its solar power plants & mini hydel project with high operating profitability.
The ratings are, however, constrained on account of decline in its total operating income (TOI) during FY20 (refers to the period April 1 to March 31) and deterioration in its debt coverage indicators in FY20.
The ratings, further, continue to remain constrained on account of its leveraged capital structure, high working capital intensity of its operations, stretched liquidity, construction risk associated with timely execution of orders in hand which are concentrated in one state, susceptibility of its profitability to raw material price volatility and its presence in intensely competitive & fragmented construction industry.
CARE also takes cognizance that MIPL has availed moratorium on debt repayment for its bank facilities as well as emergency credit line, available under RBI's COVID relief program during March-August 2020.

Rating Sensitivities

Positive factors

- Income from Engineering, Procurement & Construction (EPC) segment above Rs.350 crore through timely execution of orders on hand and improved accruals on a sustained basis along with growth in diversified order book.
- Reduction in overall gearing below 1.50x through reduction in EPC debt.
- Improvement in PBILDT interest coverage above 4x on a sustained basis.

Negative factors

- Increase in working capital intensity which in turn deteriorates its liquidity position.
- Non achievement of envisaged turnover of around Rs.130-140 crore in 9MFY21 (refers to the period April 01 to December 31) through timely execution of orders in hand.
- Non-infusion of around Rs.10 crore each from its group company in Q3FY21 (refers to the period October 01 to December 31) & Q4FY21 (refers to the period January 01 to March 31).
- Any further investment in its group entities or undertaking debt-funded capex.

Outlook: Negative

CARE expects that MIPL's overall performance to remain under pressure on account of increase in working capital intensity and high debt repayment obligations which is envisaged to exert pressure on MIPL's liquidity position and necessitates need-based support from promoters & group entities.
The outlook, however, may be revised to 'Stable' in case EPC segment reports improvement in scale of operations through timely execution of orders in hand, reduction in its reliance on need-based support from promoters & group entities and improvement in its debt coverage indicators & liquidity position.

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

Detailed description of the key rating drivers
Key Rating Strength
Vast experience of the promoter group & established presence of the group in infrastructure sector: MIPL is a part of Vadodara-based Madhav group and is an in-house EPC arm of the group. It is promoted by Mr Ashok Khurana & his son Mr Amit Khurana, who possess vast experience in the infrastructure industry. The promoter group is ably supported by vast team of engineers & project managers in executing projects.
The group has demonstrated track record of completion of multiple large sized road projects on timely basis thereby reflecting strong project execution capability in both road & solar segment. The promoter group has also infused funds on regular basis to meet incremental working capital requirements and debt servicing.

Healthy order book position with low counterparty credit risk: MIPL has a healthy order book of Rs.794.32 crore (3.92x of FY20's TOI) as on July 1, 2020 translating into good revenue visibility over medium term. Further, MIPL has low counterparty credit risk as majority of the orders are from government authorities and top three orders are backed by funding from Asian Development Bank (ADB)/ National Development Bank (NDB). Since last review, MIPL has bagged two new orders amounting to Rs.291 crore from Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable].
Furthermore, MIPL's order book remained segmentally diversified with strong presence in road segment (64%) followed by solar projects (17%), bridge projects (17%) and balance by other civil projects. Execution of orders on hand within envisaged timelines and cost would remain crucial from credit perspective.

Steady income from own renewable energy projects: MIPL has operational solar power plants aggregating 17.18 MW at various locations across India, which provides steady income of around Rs.17 crore with healthy PBILDT margin. Along with this, MIPL also undertakes O&M of a mini hydro project at Chambal. During FY20, MIPL reported revenue of Rs.19.80 crore from all the operational solar power plants and O&M of Chambal hydro project. However, payments from some of the counterparties of solar power plant had remained irregular and delayed in FY20 & H1FY21 (refers to the period April 01 to September 30). Hence, going forward, timely receipts of payments from all the counterparties will remain crucial from credit perspective.

Ownership of sizeable fleet of equipment aiding its operating profitability: Over the years, MIPL has made significant investment in building its own fleet of equipment & machinery required for project execution. During FY20, MIPL purchased equipment aggregating Rs.7.71 crore (Rs.11 crore in FY18). Resultantly, MIPL's gross block (including capitalized projects) augmented to Rs.301.45 crore as on March 31, 2020 (Rs.294.14 crore as on March 31, 2019). Large investment in machinery aids MIPL in timely execution of projects and better profitability as indicated by healthy PBILDT margin of 23.13% during FY20 (FY19: 21.32%). However, debt-funded investment in fleet of machinery has led to high interest cost and deteriorated debt coverage indicators.

Thrust of government on infrastructure development: Thrust of the government for road construction through initiatives such as Pradhan Mantri Gram Sadak Yojna (PMGSY), broadening of state & national highways and providing connectivity to tribal areas has offered various opportunities for infrastructure companies. However, the sector has faced challenges owing to suspension of construction activities due to spread of COVID-19 pandemic along with reverse migration of labour. However, the situation has gradually improved and the execution pace has now picked up. However, execution challenges like increasing cost, land acquisition, delay in receipt of regulatory clearances, high risk aversion of public sector banks to infrastructure projects and limited budgetary support beleaguer the industry.

Key Rating Weaknesses
Decline in scale of operations: MIPL's TOI declined by 33% y-o-y to Rs.202.65 crore (FY19: Rs.301.66 crore) due to lower income from the EPC segment. Slower than envisaged execution pace, primarily due to delay in handover of sites by government, receipt of prerequisite approvals, extended monsoon and delay in completion of civil work by other contractor. The project progress & billing was also hampered in March 2020 due to COVID-19 led lockdown.
Further, due to lockdown restrictions during Q1FY21, construction activity across all sites was impacted for around 1-1.5 months and MIPL reported TOI of Rs.26.54 crore during Q1FY21 (refers to the period April 01 to June 30) (Q1FY20: Rs.58.93 crore). However, with resumption of operations along with gradual increase in pace of project execution, TOI is envisaged to improve gradually in subsequent quarters. Achievement of envisaged turnover in FY21 (refers to the period April 01 to March 31) will remain a key rating monitorable.

Leveraged capital structure and modest debt coverage indicators: Overall gearing, albeit high, improved to 2.11x as on March 31, 2020 (2.44x as on March 31, 2019), primarily on account of scheduled repayment of term loan, lower mobilization advances & letter of credit (LC) acceptances as on year end. Further, during FY20, promoters and group companies infused unsecured loan of Rs.6.80 crore to support incremental working capital requirements of the company.

However, debt coverage indicators deteriorated in FY20 marked by PBILDT interest coverage of 1.39x (FY19: 1.84x) and high total debt to gross cash accruals (GCA) of 22.02x (FY19: 11.56x) due to low cash accruals and high interest cost.

Geographically concentrated order book: Out of total order book of Rs.794.32 crore, around 60% is in the state of Madhya Pradesh (MP) which exposes MIPL's growth prospects to the macro and socio-political upheavals in the region. However, 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.

Susceptibility of its profitability to raw material prices volatility: Considering execution period of contracts awarded to MIPL usually range from 12-36 months, its profitability remains susceptible to adverse fluctuations in the input prices. However, majority of orders in hand as on July 1, 2020 have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent

Presence in intensely competitive & fragmented construction industry: MIPL is a mid-sized player operating in an intensely competitive construction industry wherein contracts are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competitive intensity also results in aggressive bidding, which exerts pressure on the margins. Furthermore, interest rate risk, delay in achieving financial closure/ availability of working capital limits and delays in project due to unavailability of requisite clearances are other external factors that affect the credit profile of industry players.

Increase in working capital intensity of its operations: MIPL's operations have high working capital intensity primarily due to funding requirement for security deposits, retention amount and margin money towards various contracts & non-fund-based facilities. While MIPL's working capital cycle and gross current asset days elongated to 256 days (FY19: 137 days) and 470 days (FY19: 363 days) respectively during FY20 on account of increase in receivables days & inventory days, in absolute terms, total receivables (including retention money) & inventory reduced by around Rs.29 crore & Rs.8 crore respectively as on March 31, 2020. Further, in 5MFY21 (refers to the period April 1 to August 31, 2020), total receivables & inventory reduced by around Rs.19 crore & Rs.11 crore respectively, which improved MIPL's liquidity position marginally.

Liquidity: Stretched
Increase in working capital intensity of MIPL's EPC business coupled with slower than envisaged project progress and lower cash accruals in FY20 has resulted in stretched liquidity position of the company. Utilisation of its fund based working capital limits remained almost full during the trailing 12 months ended August 2020 and quarter-end utilisation of non-fund based working capital facilities remained at 62% during trailing four quarters ended June 2020.
However, in order to support incremental working capital requirement & debt servicing, the promoter group & group entities infused funds in form of unsecured loans of Rs.6.80 crore and recovered Rs.7.70 crore from loans & advances granted to group companies. Further, it also received income tax refund of around Rs.9.51 crore during 5MFY21.
MIPL had free cash and bank balance of Rs.0.44 crore as on March 31, 2020 (apart from lien marked fixed deposits of Rs.32.16 crore as on March 31, 2020). Further, during FY21, MIPL availed Rs.2.60 crore of emergency credit line available under RBI's COVID-19 relief program.
Going forward, cash accruals is expected to be around Rs.28-48 crore as against scheduled debt servicing obligations (principal installment) of around Rs.20-33 crore in FY21-23. Shortfall in debt servicing, if any, will be funded by promoter group / group entities. Timely receipt of funds remains crucial from credit perspective.

Analytical approach: Standalone while factoring need based support from group entities & promoters.

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 - Power Generation Projects
Rating Methodology- Solar Power Projects
Financial Ratios-Non Financial sector
Liquidity Analysis of Non-Financial Sector Entities
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 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 A1+)].

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	301.66	202.65
PBILDT	64.35	46.86
PAT	3.27	4.60
Overall gearing (times)	2.44	2.11
PBILDT Interest coverage (times)	1.84	1.39

A: Audited
During Q1FY21, MIPL reported TOI of Rs.26.54 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

Complexity level of various instruments rated for this company: Annexure-3

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-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	371.44	CARE BBB-; Negative / CARE A3
Term Loan-Long Term	-	-	September 2031#	60.13	CARE BBB-; Negative
Term Loan-Long Term	-	-	September 2029#	64.96	CARE BBB-; Negative
Term Loan-Short Term	-	-	April 2021	1.10	CARE A3

#adjusted with moratorium availed by the company

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (Under Credit watch with Negative Implications)	1)CARE BBB+; Negative (08-Oct-18)	1)CARE BBB+; Positive (09-Oct-17) 2)CARE BBB+; Stable (14-Apr-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						(21-Jun-19)		
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	371.44	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (24-Jan-20) 2)CARE BBB-; Stable / CARE A3 (08-Aug-19) 3)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	60.13	CARE BBB-; Negative	-	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)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)
4.	Term Loan-Long Term	LT	64.96	CARE BBB-; Negative	-	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (Under Credit watch with Negative Implications) (21-Jun-19)	1)CARE BBB+; Negative (08-Oct-18)	-
5.	Term Loan-Short Term	ST	1.10	CARE A3	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple
4.	Term Loan-Short Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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