Man Infraconstruction Limited

December 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank facilities	32.50	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Reaffirmed
Long/Short-term bank facilities	188.18	**CARE A-; Stable/CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus]**	Reaffirmed
Total facilities	**220.68 (Rs. Two hundred twenty crore and sixty eight lakhs)**		

Detailed Rationale

The reaffirmation of ratings of the bank facilities of Man Infracontruction Limited (MIL) continues to derive strength from well-established & experienced promoters, favourable order book position providing short to long term revenue visibility and favourable financial risk profile on the backdrop of comfortable liquidity position.

However, the rating strengths continue to be tempered by inherent risk associated with execution of large EPC orders in infrastructure projects and cyclicality associated with the real estate segment.

Ability of MIL to execute the real estate projects in a timely manner, good sales momentum and improve collection efficiency remains crucial. Also, any moderation in financial risk profile of the company would be key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Well established and experienced promoters

Incorporated on August 16, 2002, Man Infraconstruction Ltd (MIL) promoted by Mr. Parag Shah (currently the Managing Director) is engaged in the construction of residential & commercial, institutional and infrastructure projects. The promoter has an experience of over two decades in the construction industry. Earlier the promoter was mainly engaged in construction of port infrastructure projects through a group company, Pathare Real Estate & Developers Limited, which was later merged with MIL. The clientele of the company comprises major real estate developers from whom it has been receiving repeat orders. The day-to-day operations of the company are managed by a team of qualified and experienced professionals headed by Mr. Parag Shah.

Favourable order-book position, providing short to medium term revenue visibility

MIL's outstanding order book comprise of EPC orders from infrastructure and real estate segment. At consolidated level, as on September 30, 2018 the EPC order book stood at Rs. 463.78 crore.

Going forward, with MIL venturing as a real estate developer, the EPC orders for those projects are expected to be executed in-house. However, any downturn in the real estate industry might impact the operational performance of the company.

Favourable operational performance in FY18 resulting in modest financial risk profile

MIL, at consolidated level derives income from operations from EPC and real estate segment. The income from operations of the company significantly improvement in income from EPC segment from Rs. 471.63 crore in FY17 to Rs. 628.30 crore in FY18 on account of completion of balance work order of Rs. 292 crore towards infrastructure work at 4th container terminal Phase-I at Nhava Sheva. The terminal is developed by Port of Singapore Authority.

PBILDT margins of the company improved to 34.88% in FY18 from 31.48% in FY17 on account of lower operating cost. Interest coverage ratio of the company improved from 3.84 times in FY17 to 4.36 times in FY18 due to higher PBILDT levels. Gross cash accurals of the company increased from Rs. 77.77 crore in FY17 to Rs. 124.67 crore in FY18 on account of better realizations in orders executed. Total Debt of the company increased from Rs. 304.62 crore as on March 31,

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

2017 to Rs. 436.52 crore as on March 31, 2018 due to increase in term borrowings in real estate segment by MIL's subsidiaries/associates. Overall gearing ratio of the company marginally increased from 0.44 times as on March 31, 2017 to 0.57 times as on March 31, 2018. Despite an increase in Total Debt, the company reported marginal improvement in Total Debt to GCA to 3.50 times as on March 31, 2018 from 3.92 times as on March 31, 2017.
However, MIL at standalone level reported increase in total revenue to Rs. 264.61 crore in FY18 from Rs. 206.27 crore in FY17 on account of higher execution of EPC orders and professional & consultancy fees. The company receives professional and consultancy fees from its subsidiaries/associates towards project management of real estate projects. PBILDT margins marginally dipped in FY18 as compared to FY17. Interest coverage ratio of the company continues to remain favourable at 159.70 times in FY18. The company continues to remain debt free at standalone level. There are no term and working capital borrowings as on March 31, 2018.

Key Rating Weaknesses

Risk associated with real estate sector

MIL continues to venture into real estate segment in Mumbai region. During FY18, MIL completed two projects with sales area of around 71,872 sq. ft. as compared to 20, 238 sq. ft. in FY17. Currently, the company has three on-going projects. These on-going projects are under execution in one subsidiary, one associate and one in joint venture with Atmosphere Realty Private Limited. These on-going projects are expected to be complete in span of next 5 years. Out of these on-going projects, the Aaradhya HighPark (located near Dahisar, Thane) is relatively large in size for the group. This project is spread across in three phases over a period next nine years from Q2FY19. The balance customer advance is higher to balance total cost (land and construction) and outstanding debt (considering three on-going projects).
MIL provides financial and operational support to its subsidiaries/ associates which are into real estate business. As financial support, the company extends unsecured loans and corporate guarantee for the loans taken by its subsidiaries/associates, for which MIL receives as consideration interest & fee income and dividend. In case of operation support, the company provides project consultancy and marketing services to its subsidiaries/associates for which MIL receives as consideration consultancy fees. The ongoing projects are RERA registered and have all necessary approvals in place (as per MAHARERA website).
As on March 31, 2018 at consolidated level, the total outstanding borrowings (incl. preference shares and debt in non-real estate entities) in subsidiaries/associates of MIL increased to Rs. 436.52 crore as compared to Rs. 304.62 crore as on March 31, 2017 on account of increase in borrowings from FIs in real estate segment. Further, the extension of corporate guarantee by MIL to lenders of its subsidiaries/associates increased to Rs. 582.18 crore as on March 31, 2018 from Rs. 463.56 crore as on March 31, 2017.
Ability of MIL to execute the real estate projects in a timely manner, good sales momentum and improve collection efficiency remains crucial.

Inherent risk associated with execution of EPC orders in infrastructure projects

MIL is executing EPC orders of clients largely in residential & commercial segment. The revenue recognition from execution of EPC orders is done on milestone completion basis. The company commences execution of order on receipt of advances from customers. Post completion of order the company has retention receivables of around 10-15% of the order value. The competition in construction business is high due to the presence of several players. However, MIL benefits due to its long track record in executing various orders.
Going forward, the company's ability to execute the project in timely manner remains a key rating sensitivity.
Further, on August 21, 2018 the arbitrator awarded in favour of Manaj Tollway (P) Ltd. (the subsidiary of MIL) the hearing on termination of road BOT project. The arbitrator directed PWD to pay Rs.337.88 crore to the company. MIL has investment of Rs. 61.31 crore as on March 31, 2018. The subsidiary company till date incurred expenditure of Rs. 129.93 crore which was funded through debt of Rs. 77 crore and balance as equity and VGF. The total cash outflow on the road project is Rs. 138.31 crore (out of which MIL's share is Rs. 109.82 crore).

Liquidity position:

At consolidated level, the company has free cash and cash equivalent position of around Rs. 124.03 crore as on September 30, 2018 and unutilized fund based working capital limits of Rs. 32.50 crore which would be adequate to service principal repayment in associate company of around Rs. 18.87 crore in FY19.
Also, post receipt of the amount from arbitrage award (after adjustment of financial obligations) would provide additional liquidity comfort.

Analytical approach:
CARE has combined cashflow of on-going and planned real estate projects under MIL's subsidiaries /associates. The entities considered are Man Vastucon LLP, MICL Realty LLP, MICL Developers LLP, Man Realtors & Holding (P) Ltd., Atmosphere Realty (P) Ltd., Man Aaradhya Infraconstruction LLP and Manmantra Infracon LLP. Also, the corporate guarantee given by MIL to the lenders of subsidiaries/ associates is considered while ascertaining financial risk profile of the company.

Applicable Criteria
CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Factoring Linkages in Ratings
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector

About the Company
MIL, incorporated on August 16, 2002, is engaged in EPC of real estate (residential and commercial) and infrastructure segment. The company, promoted by Mr. Parag Shah, has executed some of the significant infrastructure projects in real estate and ports. The clientele of the company comprises major real estate developers from whom it has been receiving repeat orders. MIL, also entered into MoU with STFA based in Turkey which is a multinational infra-construction contractor specializing in port and marine construction.
MIL recently ventured into entered into real estate sector as developer. The company through its subsidiaries/associates is developing real estate projects in residential segment in Mumbai region. These subsidiaries/associate companies in turn enter into Development agreement with land owners/tenants.

Brief Financials-Standalone (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	206.27	264.61
PBILDT	79.59	94.73
PAT	59.62	73.67
Overall gearing (times)	-	-
Interest coverage (times)	146.51	159.70

A: Audited

Brief Financials-Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	496.72	692.70
PBILDT	156.34	241.59
PAT	65.51	109.16
Overall gearing (times)	0.44	0.57
Interest coverage (times)	3.84	4.36

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	-	-	-	32.50	CARE A-; Stable
Non-fund-based-LT/ST	-	-	-	188.18	CARE A-; Stable / CARE A2+

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	32.50	CARE A-; Stable	-	1)CARE A-; Stable (07-Dec-17)	1)CARE BBB+ (18-Oct-16) 2)CARE BBB+ (02-Aug-16) 3)CARE A- (21-Apr-16)	1)CARE A- (13-Apr-15)
2.	Non-fund-based-LT/ST	LT/ST	188.18	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Dec-17)	1)CARE BBB+ / CARE A2 (18-Oct-16) 2)CARE BBB+ / CARE A2 (02-Aug-16) 3)CARE A- / CARE A2+ (21-Apr-16)	1)CARE A- / CARE A2+ (13-Apr-15)

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