Man Infraconstruction Limited

March 27, 2020

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	162.18	**CARE A-; Stable/CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus]**	Reaffirmed
Total facilities	**194.68 (Rs. One hundred ninety four 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 medium term revenue visibility and comfortable financial risk profile characterised by moderate gearing levels and adequate liquidity position.

The rating strengths are, however, tempered by subdued operating performance in the current year having execution, approval and funding risks associated with majority real-estate projects being at nascent stage. Furthermore, the ratings factor in the inherent risks associated with execution of EPC orders in infrastructure projects.

Rating Sensitivities

Positive Factors

- Infusion of funds by promoters in the form of equity resulting in lower reliance on debt, ie, increase in the promoter contribution in the form of equity beyond 30%.
- Improvement in the sales collection resulting in minimum Quarterly Cash Coverage Ratio during the tenure of the loan not slipping below 1.50x.
- If committed receivables as % of pending project cost and debt outstanding improves to more than 70%.

Negative Factors

- Achievement of Lower than anticipated collections leading to deterioration in debt coverage ratios.
- Deterioration in overall gearing (including corporate guarantees and adjusting the tangible networth by exposure in group companies) goes above unity.
- Deterioration in liquidity position of the company on a substantial basis

Detailed description of the key rating drivers

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

Key Rating Strengths

Well established and experienced promoters

Incorporated on August 16, 2002, Man Infraconstruction Ltd (MIL) promoted by Mr. Parag Shah (currently the non-executive chairman) 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. Manan Shah (Managing Director).

Favourable order-book position, providing medium term revenue visibility

The consolidated outstanding order book of the company stood at Rs.761.65 crore as on December 31, 2019 as compared to Rs.698.35 crore as on December 31, 2018. However, order book continues to be predominantly driven by Real estate segment. MICL venturing as a real estate developer, the EPC orders for these projects is expected to be executed in-house. However, any downturn in the real estate industry might impact the operational performance of the company.

Comfortable financial risk profile characterised by moderate gearing levels

On standalone basis, the financial risk profile of MICL is considered to remain favourable with overall gearing being at 0.01x as on March 31 2019 and as on December 31, 2019, MICL continues to have negligible debt. Further, Adjusted debt, which corresponds to corporate guarantees provided by MICL to its subsidiaries on standalone level to an extent of credit facilities utilised by subsidiaries along with standalone debt, has reduced from Rs. 778.28 crore as on March 31, 2018 to Rs. 666.32 crore as on March 31 2019 and to Rs. 429.76 crore as on December 31, 2019 leading to improvement in adjusted gearing from 1.07x as on March 31 2018 to 0.83x as on March 31 2019 and to 0.50x as on December 31 2019 respectively.

MICL, at consolidated level total debt of the company stood at Rs. 452.47 crore and net worth of Rs.706.40 crore as on December 31, 2019. Accordingly, overall gearing ratio stood at 0.64 times. Reduction in debt is on account of repayment of debts availed in completed projects and non-utilization of WC facilities. Out of Total borrowings of Rs. 452.47 crore, loans worth of Rs. 436.19 crore are external borrowings.

Key Rating Weaknesses

Subdued operating performance in the current fiscal

On standalone basis MIL derives revenues from EPC activity while at consolidated level derives income from operations from EPC and real estate segment. On standalone basis, the company’s revenues remained steady with total operating income at Rs.265.65 crore in FY19 (refers to the period from April 01 to March 31) as compared to Rs.264.61 crore in FY18. The operating margins remained healthy during the period under review. However, During FY19, MICL on consolidated reported a decrease in its total operating income from Rs. 692.70 crore in FY18 to Rs. 415.38 crore in FY19. This is primarily on account of lower contribution from the EPC segment owing to completion of balance work order towards infrastructure work at 4th container terminal Phase-I at Nava Sheva. The operating margins on consolidated basis remained healthy.

During 9MFY20, the company on standalone and consolidated basis reported decrease in its total operating income to Rs.147.02 crore (9MFY19~213 crore) and at Rs.191.38 crore (9MFY19~260 crore) respectively owing to lower EPC activity. Going forward, the company expects to receive healthy EPC orders which is expected to provide better revenue visibility.

Existence of project execution, approval and funding risks owing to large number of on-going projects at nascent stage

MICL continues to venture into real estate segment in Mumbai region. During FY19, MICL completed Phase –I of Atmosphere project at Mulund and launched two new projects Aaradhya HighPark – Phase I of 12.09 lsf, near Dahisar and Aaradhya Eastwind of 1.69 lsf at Vikhroli. Company has sold 6.34 lsf during FY19 as compared to 71,872 sq. ft. in FY18. Presently, the company has three on-going projects under various group companies and expected to be completed in span of next 5 years. Out of these on-going projects, 38.25 lsf Aaradhya HighPark is relatively large in size for the group. This project is spread across in three phases over a period of next nine years from Q2FY19. Considering size and initial stage of the on-going projects, company is exposed to risk of approvals. Moreover, the company is yet to incur 78% of the projects costs in on-going projects which is mainly to be funded from receivables. The balance customer advance to balance total cost (land and construction) and outstanding debt is around 26% (considering three on-going projects).

Ability of MICL to execute the real estate projects in a timely manner without cost overrun, good sales momentum and improve collection efficiency is key rating monitorable.

Inherent risk associated with execution of EPC orders in infrastructure projects

MICL is executing EPC orders of clients largely in residential & commercial segment. The competition in construction business is high due to the presence of several players. However, MICL benefits due to its long track record in executing various orders. 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. Going forward, the company's ability to execute the project in timely manner remains a key rating sensitivity.

Further, Manaj Tollway (P) Ltd (MTPL), one of the subsidiaries of MICL, had stopped the work on a BOT road project in 2015 on account of failure of concerned PWD to acquire and hand over land and forest clearance and had submitted a Termination Notice. MTPL has claimed costs incurred in arbitration petition filed in this matter with the Hon'ble High Court which has been award in favour of MTPL in August 21, 2018. The arbitrator directed PWD to pay Rs.337.88 crore to the company which is yet to be received till date. Manaj Tollway (P) Ltd. (the subsidiary of MIL) has paid off major debt with the help of cash flows from the stakeholders. Presently, outstanding is around Rs.27.03 crore which the company expects to pay off by the year end.

Adequate Liquidity position:

At consolidated level, free cash and cash equivalent of the company stood at Rs. 183.68 crore as on December 31, 2019 as compared with Rs. 163.80 crore as on March 31, 2019. Additionally, company has earmarked bank deposits worth of Rs. 21.56 crore for various bank facilities availed by the company.

Analytical approach: Combined

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

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Definition of Default]

[Criteria for Short Term Instruments]

[Factoring Linkages in Ratings]

[Financial Ratios – Non financial Sector]

[Criteria for Construction]

[Rating Methodology – Real Estate Sector]

About the Company

MICL, incorporated on August 16, 2002, is engaged in Engineering Procurement Construction (EPC) of residential and commercial real estate and infrastructure projects. Mr. Parag Shah, promoter of the company is actively involved in the civil construction for more than 25 years. The company has executed some of the significant infrastructure projects in real estate and onshore ports in the past while delivering over 25 million sq. ft. of construction area across segments. The clientele of the company comprises major real estate developers like Tata Housing, Sunteck, Godrej Properties & DB Realty etc. from whom it has been receiving repeat orders.

MICL ventured into real estate sector as a developer in residential segment. The company through its subsidiaries/associates enters into joint development agreement with land owner(s)/tenant(s) for developing real estate projects of Mumbai Metropolitan Region (MMR).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials-Standalone (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	264.61	265.65
PBILDT	94.73	148.14
PAT	73.67	108.52
Overall gearing (times)	-	0.01
Interest coverage (times)	159.70	120.85

A: Audited

Brief Financials-Consolidated (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	692.70	415.38
PBILDT	241.59	146.19
PAT	109.16	42.56
Overall gearing (times)	0.57	0.61
Interest coverage (times)	4.36	2.72

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

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	-	-	-	162.18	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 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	32.50	CARE A-; Stable	-	1)CARE A-; Stable (27-Dec-18)	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)
2.	Non-fund-based-LT/ST	LT/ST	162.18	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Dec-18)	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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
Financial covenants	
Capital Expenditure/Investment	Company shall not invest any amount for fixed assets without any long term arrangement and without maintaining Current Ratio of 1.25
Capital Structure	Company should not effect any change in capital structure or formulate any scheme of amalgamation or reconstitution without prior approvals from lenders
Non financial covenants	
Undertaking of guarantee obligation	Company should not undertake guarantee obligation on behalf of any other concerns without prior approval of the lender.
Issuance of Bank Guarantee on behalf of JV	In case of Bank Guarantee (BG) to be issued on behalf of Joint Venture, BG will be issued in case JV is not availing any bank

Name of the Instrument	Detailed explanation
	facility and it will be restricted up to the extent of percentage shareholding of the Company.

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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