## Press Release

### Morth Infrastructure Private Limited

### March 20, 2020

**Ratings**

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating Assigned |
|---|---|---|---|
| 1 | Bank Facilities- Long Term | 6.55 | IVR BB/Stable Outlook (IVR Double B with Stable Outlook) |
| 2 | Bank Facilities- Short Term | 12.50 | IVR A4 (IVR A Four) |
| | **Total** | **19.05** | |

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The ratings assigned to the bank facilities of Morth Infrastructure Private Limited ("MIPL" or "the company") derives comfort from its experienced partners, proven project execution capability and reputed clientele with relatively low counter party payment risk. The ratings also factor in its improved revenue level in FY19 as against previous fiscals. These rating strengths are partially offset by its modest scale of operations, highly fragmented & competitive nature of the construction sector, inherent risk as civil contractor along with its' below average capital structure and debt protection metrics.

### Key Rating Sensitivities

### Upward revision factors:

- Procurement of new orders providing medium to long term revenue visibility leading to substantial and sustained improvement in the revenue and profitability while maintaining the debt protection metrics.
- Sufficient liquidity buffer with enhancement in the existing limits or working capital limits utilization below 90% on a sustained basis

**Downward revision factors:**

- Moderation in the capital structure with deterioration in overall gearing to more than 1x and impairment in debt protection metrics
- Deterioration in liquidity position due to inability to obtain enhancement in the existing limits or high working capital intensity, resulting in heavy utilisation of the existing limits.

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

**Satisfactory track record and experienced Management**

MIPL has a track record of close to a decade. The promoters of the company have around ten years of business experience which has enabled the company to receive repeated orders from government entities and other infrastructure companies. Also, the company has adequate technical and project management capabilities to handle multiple projects at a time and has supported the overall performance.

**Proven project execution capability**

Over the past years, the entity has successfully completed many civil construction projects majorly in Uttar Pradesh and ensured timely completion of its projects.

**Key Rating Weaknesses**

**Small scale of operation**

The scale of operation of the company is small in the construction sector with a total operating income of Rs.27.05 crore in FY19 (Rs.19.23 crore in FY18) and a net worth base of Rs.7.14 crore as on March 31, 2019 signifying that MIPL is a marginal player in the industry. Small scale of operations limits the economics of scale benefits and financial flexibility. However, the profit margins of the company remained satisfactory over the past three fiscals. In FY19, the company earned a gross cash accruals of Rs.2.31 crore with an EBITDA margin of 12.92% and a PAT margin of 4.41%. During 9MFY20, the company has achieved a PBT of Rs.1.28 crore on total operating income of Rs.15.68 crore.

**Susceptibility of profitability to volatile input prices**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the company remains susceptible to fluctuation in input prices.

**Tender driven nature of business in highly fragmented & competitive construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

**Below average capital structure and moderate debt protection metrics**

MIPL's capital structure remained leveraged marked by the overall gearing ratio at 2.34x in FY19. The overall gearing ratio deteriorated from 1.54x as on Mach 31, 2018 due to increase in secured loan and increase in cash credit utilization. Despite increase in its Gross cash accruals, Total debt to GCA remained moderate at 7.25 times due to increase in debt level as on March 31, 2019. Interest coverage ratio remained satisfactory and improved marginally to 2.21 times in FY19 as against 1.42 times in FY18 driven by increase in absolute EBITDA to Rs.3.50 crore in FY19 as against Rs.1.73 crore in FY18. Total indebtedness as reflected by TOL/TNW remained satisfactory at 3.13x as on March 31, 2019.

**High working Capital intensity**

Construction business, by its nature, is working capital intensive. A large amount of its working capital remained blocked as retention money, earnest money deposit and security deposit. The working capital requirement of the company is mainly funded through mobilisation advance received from its principles; credit period availed from its creditors based on its established relationship and bank borrowings. Average utilization of fund based limit of MIPL is high ~98% for the last 12 months ended December 31, 2019.

**Inherent Risk as Civil Contractor**

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company is civil constructions.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity: Stretched**

Liquidity is marked by tightly matched accruals to repayment obligations in FY21 and FY22 and highly utilized bank limits during the past 12 months ended December, 2019 indicating a limited liquidity buffer. Further, the company has limited gearing headroom due to its leveraged capital structure with an overall gearing at 2.34x as on March 31, 2019. However, the company has adequate liquidity to meet its repayment obligations in FY20. Comfort can also be derive from the practice of the company to maintain a cash balance of around Rs.4-5 crore. Going forward efficient working capital management and sanctioning of additional bank lines will be crucial for its liquidity.

## About the Company

Morth Infrastructure Private Limited ("MIPL" or "the company") was set up in 2010, by the promoter, Mr. Om Veer Singh and his family. The company undertakes civil construction work, primarily road construction, for several government departments mainly in Uttar Pradesh. The company is class "A" category registered Infrastructure Company which enables to bid unlimited amount work and apart from direct orders also worked as sub-contractor.

**Financials (Standalone):**

**(Rs. In crore)**

| For the year ended* | 31-03-2018 | 31-03-2019 |
|---|---|---|
| | Audited | Audited |
| Total Operating Income | 19.23 | 27.05 |
| EBITDA | 1.73 | 3.50 |
| PAT | 0.45 | 1.23 |
| Total Debt | 9.08 | 16.73 |
| Tangible Net worth | 5.91 | 7.14 |
| EBITDA Margin (%) | 8.98 | 12.92 |
| PAT Margin (%) | 2.20 | 4.41 |
| Overall Gearing Ratio (x) | 1.54 | 2.34 |

*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Rating migrated to non-cooperating category by Brickwork Ratings at BWR B+ (Stable)/ BWR A4 (Issuer did not Co-operate) on October 23, 2019.

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1. | Bank Facilities- Fund Based | Long Term | 6.55 | IVR BB/Stable Outlook (IVR Double B with Stable Outlook) | - | - | - |

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 2 | Bank Facilities-Non-Fund Based | Short Term | 12.50 | IVR A4 (IVR A Four) | - | - | - |

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

**Name and Contact Details of the Rating Analyst:**

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|---|---|
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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Annexure 1: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Long Term Bank Facilities – Cash Credit | - | - | - | 6.55 | IVR BB/Stable Outlook |
| Short Term Bank Facilities – Bank Guarantee | - | - | - | 12.50 | IVR A4 |