



Press Release

MFAR Constructions Private Limited (MCPL)

November 12, 2020

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Current Ratings	Rating Action
1.	Long Term Fund Based Facilities – Cash Credit	72.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Reaffirmed;Outlook Revised to Positive from Stable
2.	Long Term Non Fund Based Facilities- Bank Guarantee	41.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Reaffirmed;Outlook Revised to Positive from Stable
3.	Short term Non Fund Based Facilities – Bank Guarantee/Letter of Credit	83.00	IVR A3+ (IVR A Three Plus)	Reaffirmed
4.	Short term Non Fund Based Facilities – (Proposed) Bank Guarantee	20.00	IVR A3+ (IVR A Three Plus)	Assigned
	Total	216.00		

Details of Facilities are in Annexure 1

Detailed Rationale

MCPL's rating outlook has been revised to positive from stable on account of improvement in revenue and continuation of healthy debt protection metrics in FY20. The improvement was due to scheduled execution of the orders. Furthermore, the unexecuted order book also supports the change in Outlook to Positive. Further, the rating continues to derive strength from company's experienced promoters, renowned presence along with project execution capability, reputed clientele, strong order book reflecting satisfactory medium term to long term revenue visibility, improvement in financial performance with comfortable gearing and debt coverage indicators. However, the rating strengths are partially offset by slowdown in real estate sector, fragmented and competitive nature of the construction sector along with significant price war and the working capital intensive operations; albeit improving.

Key Rating Sensitivities:



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Upward rating factor(s):

- A sustained improvement in the revenue while maintaining the profitability and debt protection metrics.
- Reduction in concentration risks

Downward rating factor(s)

- Elongation in working capital cycle
- Any deterioration in liquidity profile on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced Promoter

The founder, Dr. P. Mohamed Ali has extensive experience in infrastructure and construction industry. He co-founded GALFAR Engineering and Contracting in 1972 in Oman. Thereafter, the company went on becoming one of the largest private sector company of Oman with EPC capability in oil and gas, roads and bridges, civil and maritime infrastructure and utilities. Mr. Ali is supported by an experienced and qualified Board of Directors and management team.

Renowned presence and proven project execution capability

Over the past years, MCPL has successfully completed many projects across Karnataka, Tamil Nadu, Kerala, Delhi, West Bengal, Jharkhand, Uttar Pradesh, etc. and ensured timely completion of majority of its projects. The repeat orders received from its clientele validate its construction capabilities. The company has renowned brand presence in the state of Kerala and Karnataka.

Reputed Clientele

MFAR group has a well-established clientele with whom it has successfully formulated a mutually enriching relationship and have acquired repeated orders over the years. Reputed firms like Brigade Enterprise, Century Real Estate, Godrej group etc. are associated with MCPL.



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Order book reflecting satisfactory medium to long -term revenue visibility

The company has an unexecuted order book of ~ INR929 crore as on August 2020 which is about 2.90 times of its FY20 (provisional) revenue (i.e. INR321.15 crore). The orders are expected to be completed over next three years, indicating a satisfactory near to medium term revenue visibility.

Improvement in financial performance

Total operating income increased from INR300.57 crore in FY19 to Rs.321.15 crore in FY20 (Prov.) registering a y-o-y growth of ~7% driven by increase in flow of orders and higher execution of the same. The EBITDA margin improved marginally from 7.69% in FY18 to 7.63% in FY19 and to 8.27% in FY20 (Prov.) on the back of execution of relatively high margin contracts with better price realization.

Comfortable gearing and debt coverage indicators

The overall gearing of the company has been comfortable as on account closing days of last three years. Long term debt-equity ratio stood at 0.02x as on March 31st 2020 with an interest coverage ratio of 2.93x for the same period. TOL/TNW is also comfortable at 1.49x

Promoter Support

The company has comfortable capital structure, MCPL has a nominal amount of long term debt and the debt profile of the company primarily consists of working capital borrowings in the form of long term borrowings (Cash Credit) and short term borrowings (BG and LC). The promoters have continuously supported the operations of the company by infusing funds in the form of equity, the equity share capital has increased gradually to INR24.08 Crore in FY19 from INR17.82 Crore in FY16.

Key Rating Weaknesses



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Slowdown in real estate sector

The real Estate sector is witnessing slowdown due to higher inventory all over. However, the Bangalore market where the company is operating is growing albeit at a slower rate leading to delayed realisation.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded 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 may impact the profitability of the company adversely.

Working Capital Intensive Operations albeit improving

The gross current asset of the company stood at 313 days in FY2019 and at 287 days in FY2020 (Prov.) thus indicating working capital intensive operations where much of the company cash is locked-up in inventory and with the customers. On average, the company takes around 121 days to pay its suppliers. But on overall basis, the company's operating cycle are improving y-o-y basis with 165 days in FY20 (FY19:201 days; FY18:311 days)

Analytical Approach & Applicable Criteria:

- Standalone.
- Rating methodology for Infrastructure companies
- Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has gross cash accrual of INR15.81 Crore in FY 20(P) against the repayment obligation of INR0.59 Crore in FY 20(P). The company's utilization of the bank limits was moderate ~89 % over the last 12 months ended on September 30, 2020. Liquidity position of the company appears to be comfortable in the projected period with gradually increasing gross cash accruals y-o-y basis in absence of any substantial term repayments. The current



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ratio and quick ratio of the company stands at 1.48x and 0.87x respectively as on March 31, 2020 (P).

About the Company:

MFAR Construction Pvt Ltd., incorporated in 1997, is engaged in construction of residential and commercial properties. It undertakes diverse construction contracts which includes IT parks, malls, industrial infra, high-rise residential projects etc. The company has completed various projects in different regions of the country that includes Bangalore, Kolkata, Assam, Chennai, Goa, NCR etc. Going forward the management is keen on Venturing into civil construction projects like roads, and other EPC projects.

Financials: Consolidated

For the year ended/ As On*	(INRCrore)	
	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	300.57	321.15
EBITDA	22.92	26.55
PAT	6.46	8.80
Total Debt	108.78	110.34
Tangible Net-worth	171.54	180.34
EBITDA Margin (%)	7.63	8.27
PAT Margin (%)	2.11	2.69
Overall Gearing Ratio (x)	0.63	0.61

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: CRISIL, ICRA and Acuitehave moved the rating of MFAR Constructions Private Limited into the Issuer Non-Cooperating category as per the Press Release dated February 18, 2020, February 20, 2020 and August 01, 2019 respectively.

Any other information: N.A.



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Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (September 04, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facilities – Cash Credit	Long Term	72.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	--	--
2.	Long Term Non Fund Based Facilities- Bank Guarantee	Long Term	41.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	--	--
3.	Short term Non Fund Based Facilities – Bank Guarantee/Letter of Credit	Short Term	83.00	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	--	--
4.	Short term Non Fund Based Facilities – (Proposed) Bank Guarantee	Short Term	20.00	IVR A3+ (IVR A Three Plus)	--	--	--
Total			216.00				

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.

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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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INRCrore)	Rating Assigned/ Outlook
Long Term Fund Based Facilities – Cash Credit	NA	NA	--	72.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)
Long Term Non Fund Based Facilities- Bank Guarantee	NA	NA	--	41.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)
Short term Non Fund Based Facilities – Bank Guarantee/Letter of Credit	NA	NA	--	83.00	IVR A3+ (IVR A Three Plus)
Short term Non Fund Based Facilities – (Proposed) Bank Guarantee	NA	NA	--	20.00	IVR A3+ (IVR A Three Plus)



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Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lenders-MCPL-12-11-20.pdf>