

Press Release

MFAR Constructions Pvt Ltd.

September 04, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Fund Based Long Term – Cash Credit	72.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
2	Non Fund Based Long Term - Bank Guarantee	41.00	
3	Non Fund Based Short Term – BG/LC	83.00	IVR A3+ (IVR A Three Plus)
	Total	196.00	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from company's experienced promoters, reputed clientele, comfortable gearing & debt coverage indicators and the promoters' support. The rating however is constrained by volatile operating income, working capital intensive operations and the general slowdown in real estate sector. Stability in operations, maintaining profitability, efficient management of working capital cycle and continued promoters' support are the key rating sensitivities

Detailed Description of Key Rating Drivers

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 BODs and management team at MFAR.

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.

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 0.01x as on March 31st 2019 with an interest coverage ratio of 2.66x for the same period. TOL/TNW is also comfortable at 1.26x.

Promoter Support

The promoters of the group are in the position to support the group entities via infusion of additional equity or providing loan as and when required.

Key Weaknesses

Volatile Operating income

The Operating income of company has exhibited decline for three consecutive years. From Rs. 372 cr. in FY15 it moved to Rs. 246.33 cr. in FY18, a CAGR of -12.83%. Although the current order book looks strong and FY19 saw an increase in company's operating income, volatility owing to general slowdown in real estate cycle would be a concern for the company going forward.

Slow down in real estate sector

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

Working Capital Intensive Operations

The average collection period was elongated at approximately 121 days in FY19 and average inventory of 232 days in FY19. This implies 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 207 days to pay its suppliers. The cash conversion cycle for the company is around 146 days for FY19.

Liquidity

There is nominal long term debt, however high work in process is funded by higher creditor velocity. Liquidity position of the company appears to be comfortable in the projected period with gradually increasing gross cash accruals in absence of any substantial term repayments. However, the average utilisation of working capital limits remain high due to working capital intensive operations.

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 focusing less on residential projects and more on commercial projects. Venturing into civil construction projects like roads, EPC is also being planned

Financials (Standalone)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (P)
Total Operating Income	246.33	300.68
EBITDA	18.94	29.3
PAT	6.74	9.72
Total Debt	76.58	64.91
Tangible Net worth	165.11	174.83
EBIDTA Margin (%)	7.69	9.74
PAT Margin (%)	2.68	3.22
Overall Gearing ratio (x)	0.46	0.37

* Classification as per Infomerics' standards

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term - Cash Credit (CC)	72.00	IVR BBB /Stable Outlook	--	--	--
Non - Fund Based Facilities	Long Term - Bank Guarantee	41.00				
Non - Fund Based Facilities	Short Term - BG/LC	83.00	IVR A3+	--	--	--
	Total	196.00				

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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	--	72.00	IVR BBB /Stable Outlook
2	Long Term Non Fund Based (BG)	--	--	--	41.00	
3	Short Term Non Fund (BG/LC)	--	--	--	83.00	IVR A3+
Total					196.00	