MFAR Constructions Private Limited

July 11, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facilities – Cash Credit	72.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	**Simple**
Long Term Non-Fund Based Facilities - Term Loan	9.80 (decreased from Rs.21.25 crore)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	**Simple**
Short term Non-Fund Based Facilities – Bank Guarantee	73.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Reaffirmed	**Simple**
Total	**154.80 (Rupees One Hundred Fifty-Four Crore and Eighty Lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its rating assigned to the Bank facilities of MFAR Constructions Private Limited. The rating so assigned, continues derives strength from the experienced promoters, reputed clientele base, renowned presence and proven project execution capability, order book reflecting comfortable short to medium term revenue visibility, stable albeit improving scale of operation, comfortable capital structure and debt coverage indicators.

The rating is however constrained by the range bound profitability, highly fragmented & competitive nature of the construction sector along with exposure to cyclical and competitive real estate industry, geographical concentration of the current order book and working capital intensive nature of operation.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

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

List of 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, which is one of the largest private sector companies 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 albeit geographical concentration of the current order book

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. However, the current order book is concentrated with around 60% of the projects coming from the state of Karnataka.

Order book reflecting comfortable medium-term revenue visibility, with reputed clientele

The company has an unexecuted order book of around Rs.1146 Crore as on May 15, 2024 which translates to comfortable order book to total operating income (Order book / TOI) ratio of 2.13 times of its FY24 [(P) refers to period April 01st 2023 to March 31st, 2024] revenue (i.e. Rs.495.23 Crore). The orders are expected to be completed over next three years, indicating a satisfactory near to medium term revenue visibility. MCPL 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.

Stable albeit improving scale of operations, with range bound profitability

Total operating income increased from Rs.367.96 crore in FY23 (A) to Rs.498.51 crore in FY24 (P) registering a y-o-y growth of ~35%, underpinned by increase in the number of orders availed and speedy execution of the same. However, the profitability of the company remained range bound, with the EBITDA margins reported in the range of around 11-11.50% from FY22-FY24. However, due to the increase in the overall scale of operations and reporting of similar level of interest and finance costs the company reported better PAT margin of around 3.30% for the year ended on March 31, 2024 as compared to the PAT margin reported of 2.45% for the year ended on March 31, 2023.

Comfortable capital structure and debt coverage indicators

The capital structure of the company remained at a comfortable level as indicated by the overall gearing of below 0.50x as on March 31, 2024 and March 31, 2023. Furthermore, the long-term debt-equity ratio stood at 0.07x as on March 31st 2024. Also, the debt coverage indicators remained at a satisfactory level as indicated by the interest coverage ratio of 4.08x as at FY24 (P) end (FY23 (A) : 2.91x).

Key Rating Weaknesses

Exposure to cyclical and competitive real estate industry

The real estate sector in India is highly fragmented with most of the real estate developers having a city-specific or region-specific presence, thus resulting in intense competition and pressure on bookings and sales realisation. Also, the sector is vulnerable to inherent risk of cyclicality in demand and interest rate risk, which is largely linked to macroeconomic cycles. Commercial realty, in fact, is seen picking up momentum in the top cities of the country, driven by the IT/ITeS sectors. However, the company has ventured into the road segment through the sole order acquired. Going forward the diversification into various segments will remain a key rating monitorable.

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

Though improved on y-o-y basis the company's working capital cycle remained stretched as inherent from the nature of operations at over 120 days as on March 31, 2024 as compared to around 175 days reported as on March 31, 2023. The y-o-y improvement in the operating cycle can be attributed to the improvement in the collection cycle to 92 days as on March 31, 2024 from 105 days as on March 31, 2023, alongwith simultaneous y-o-y improvement in the inventory period to 121 days as on March 31, 2024 from 179 days registered as on March 31, 2023. The collection period remained elongated due to the presence of retention money in the system as inherent from the nature of the business. The inventory holding period remained elongated marked by the high WIP inventory holding period of 84 days as on March 31, 2024 (130 days as on March 31, 2023). The stretched collection cycle and inventory holding cycle has been funded through elongated creditors period of 89 days as on March 31, 2024 (110 days as on March 31, 2023).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning rating outlook.

Policy on Default Recognition and Post-Default Curing Period

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity of the company remained adequate marked by the gross cash accrual of Rs.40.35 Crore in FY24 (P) and consist of nominal amount of repayment obligation amounting to Rs.3.76 Crore as on March 31, 2024. The company's utilization of the bank limits was moderate at around ~71% over the last 12 months ended May 2024. 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 ratio and quick ratio of the company stands at above unity as on March 31, 2024. Cash & cash equivalent was Rs.1.83 crore as on March 31, 2024.

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 (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	367.96	498.51
EBITDA	40.58	56.18
PAT	9.04	16.55
Total Debt	77.39	63.69
Tangible Net Worth	187.68	203.72
EBITDA Margin (%)	11.03	11.27
PAT Margin (%)	2.45	3.30
Overall Gearing Ratio (x)	0.41	0.31
Interest Coverage (x)	2.91	4.08

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years			
		Type (Long Term/ Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22	
					(May 12, 2023)		(March 11, 2022)	(February 11, 2022)
1.	Cash Credit	Long Term	72.00	IVR BBB+/ Stable	IVR BBB+/ Stable		IVR BBB/ Positive	IVR BB+; ISSUER NOT COOPERATING*
2.	Term Loan	Long Term	9.80	IVR BBB+/ Stable	IVR BBB+/ Stable		IVR BBB/ Positive	IVR BB+; ISSUER NOT COOPERATING*
3.	Bank Guarantee	Short Term	73.00	IVR A2	IVR A2		IVR A3+	IVR A4+; ISSUER NOT COOPERATING*
4.	Proposed Bank Guarantee	Short Term	-	-	Withdrawn		IVR A3+	IVR A4+; ISSUER NOT COOPERATING*

**based on best available information*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Press Release

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit					72.00	IVR BBB+/ Stable
Term Loan				January 2028	9.80	IVR BBB+/ Stable
Bank Guarantee					73.00	IVR A2

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-MFAR-july24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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