Press Release

MFAR Constructions Private Limited (MCPL)

May 12, 2023

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action	Complexity indicators
1	Long Term Fund Based Facilities – Cash Credit	72.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Revised	Simple
2	Long Term Non-Fund Based Facilities - Term Loan	21.25	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
3	Short term Non-Fund Based Facilities – Bank Guarantee / Letter of Credit	73.00 (Reduced from Rs.83 crore)	IVR A2 (IVR A Two)	Revised	Simple
4	Short term Non-Fund Based Facilities – (Proposed) Bank Guarantee	-	-	Withdrawn*	Simple
	Total	**166.25 (Rupees One Hundred Sixty Six Crore and Twenty Five Lakhs Only)**			

**The company did not proceed with the proposed Short term facilities rated during the last rating exercise. Therefore, the same has been withdrawn.*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of MFAR Constructions Private Limited (MCPL) reflects overall improvement in the financial and operational performance of company in FY22 and 9MFY23 which is expected to sustain in FY24 and beyond.

Further the ratings continue to derive strength from its experienced promoter, promoter support, reputed clientele base, renowned presence and proven project execution capability, order book reflecting satisfactory medium to long-term revenue visibility, stable albeit improving scale of operation, comfortable capital structure and debt coverage indicators. However, the rating strengths are partially offset by range bound profitability in

FY22, highly fragmented & competitive nature of the construction sector along with exposure to cyclical and competitive real estate industry albeit gradual recovery post downturn in demand on account of Covid-19 and working capital intensive nature of operation.

Key Rating Sensitivities:

Upward Factors

- A sustained & substantial 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

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.

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 need based funds as and when required.

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

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.

Order book reflecting satisfactory medium to long -term revenue visibility.

The company has an unexecuted order book of ~1470 INR Crore as on February 01, 2023 which translates to healthy order book to total operating income (Order book / TOI) ratio of 4.32 times of its FY22 revenue (i.e.INR339.33 Crore). The orders are expected to be completed over next three years, indicating a satisfactory near to medium term revenue visibility. The company is also expected to benefit from the entry into the road construction segment, wherein the company has already availed one contract worth Rs.628 crore in November 2022.

Stable albeit improving scale of operations, with range bound profitability

Total operating income increased from INR284.81 crore in FY21 to INR339.33 in FY22 registering a y-o-y growth of ~19%, backed by speed up in order execution after facing the effect of pandemic. Furthermore with speed up in order execution, during 9MFY23, the company has registered around ~27% growth in revenue as indicated by sales registered of Rs.306.73 crore (9MFY21 : Rs.240.72 crore) driven by increase in flow of orders and timely execution of the same. However, the profitability of the company remained range bound, with dip in margins registered in FY22 on account of increase in depreciation expense for the year due to select accounting changes as indicated by EBITDA margin has dipped by 43 bps to 10.91% in FY22 from 11.34% of FY21, along with decline in the PAT margin to 0.62% in

FY22 from 1.91% in FY21. However, the same normalized in 9MFY23 as indicated by the EBITDA margin and PAT margin of 12.12% and 2.93% respectively. This improvement is expected to continue for full year FY24 and beyond.

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 0.53x as at March 31, 2022 as compared to the overall gearing of 0.56x as at March 31, 2021. Furthermore, the long-term debt-equity ratio stood nil as on March 31st 2022. Also, the debt coverage indicators remained at a satisfactory level as indicated by the interest coverage ratio of 2.86x as at FY22 end (FY21 : 2.79x).

Key Rating Weaknesses

Exposure to cyclical and competitive real estate industry albeit gradual recovery post downturn in demand on account of Covid-19

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. The pandemic had impacted both the residential and commercial realty markets. However, the impact was limited, and the residential sales picked up again, along with that commercial segment is showing signs of revival. Commercial realty, in fact, is seen picking up momentum in the top cities of the country, driven by the IT/ITeS sectors.

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 company's working capital cycle remained stretched as inherent from the nature of operations at 142 days as at FY22 end (FY21: 173 days). The y-o-y improvement in the operating cycle can be attributed to the improvement in the collection cycle to 73 days as at FY22 end from 96 days as at FY21 end, along with simultaneous y-o-y improvement in the inventory period to 197 days as at FY22 end from 240 days registered as at FY21 end. The inventory holding period remained elongated marked by the high WIP inventory holding period of 141 days at FY22 end (FY21 : 168 crore). The funding of the stretched debtors period and inventory holding cycle has been funded through elongated creditors period of 128 days at FY22 end (FY21 : 163 days).

Analytical Approach: Standalone Approach

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity: Adequate

The company has gross cash accrual of Rs.21.63 Crore in FY22 and consist of nominal amount of repayment obligation amounting to Rs.6.00 Crore as on March 31, 2022. The company's utilization of the bank limits was moderate at around ~78 % over the last 12 months ended on January 31, 2022. 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 1.78x and 1.07x respectively as on March 31, 2022. The cash and cash equivalents remained at March 2022 end at Rs.5.11 crore.

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*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Operating income	284.81	339.33
EBITDA	32.28	37.03
PAT	5.44	2.11
Total Debt	99.92	95.45
Tangible Net-worth	179.55	181.67
Ratios (%)		
EBITDA Margin (%)	11.34	10.91
PAT Margin (%)	1.91	0.62
Overall Gearing Ratio (x)	0.56	0.53

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Acuite, CRISIL, ICRA Ratings has continued the rating of MCPL into the Issuer Non-Cooperating (INC) category as per the Press Releases dated February 16, 2022; July 27, 2022 and July 28, 2022 respectively.

Any other information: None

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (March 11, 2022)	Date(s) & Rating(s) assigned in 2021-22 (February 11, 2022)	Date(s) & Rating(s) assigned in 2020-21 (November 12, 2020)
1.	Long Term Fund Based Facilities – Cash Credit	Long Term	72.00	IVR BBB+/ Stable	-	IVR BBB/ Positive	IVR BB+; ISSUER NOT COOPERATING	IVR BBB/ Positive
2.	Long Term Non Fund Based Facilities- Term Loan	Long Term	21.25	IVR BBB+/ Stable	-	IVR BBB/ Positive	IVR BB+; ISSUER NOT COOPERATING	IVR BBB/ Positive

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (March 11, 2022)	Date(s) & Rating(s) assigned in 2021-22 (February 11, 2022)	Date(s) & Rating(s) assigned in 2020-21 (November 12, 2020)
3.	Short term Non Fund Based Facilities – Bank Guarantee/Letter of Credit	Short Term	73.00	IVR A2	-	IVR A3+	IVR A4+; ISSUER NOT COOPERA-TING	IVR A3+
4	Short term Non-Fund Based Facilities – (Proposed) Bank Guarantee	Short Term	-	-	-	IVR A3+	IVR A4+; ISSUER NOT COOPERA-TING	IVR A3+

Name and Contact Details of the Rating Team:

Name: Ms. Rilpa Trivedi
Tel.: (079) 40393043
Email: rilpa.trivedi@infomerics.com

Mr. Amit Bhuwania
Tel.: (022) 6239 6023
Email: abhuwania@infomerics.com

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: 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 Fund Based Facilities – Cash Credit	--	--	--	72.00	IVR BBB+/ Stable
Long Term Non-Fund Based Facilities - Term Loan	--	--	January 2028	21.25	IVR BBB+/ Stable
Short term Non-Fund Based Facilities – Bank Guarantee / Letter of Credit	--	--	--	73.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-MFAR-may23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument / facilities: 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 https://www.infomerics.com/.