



## Press Release

### M S V Constructions Company

June 28, 2024

#### Ratings

Security Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	19.67 (enhanced from 14.36)	IVR B; Stable (IVR Single B with Stable Outlook)	IVR B; Negative; Issuer Not Cooperating (IVR Single B with Negative outlook; Issuer Not Cooperating)	Reaffirmed with revision in outlook from Negative to Stable and removed from Issuer Not Cooperating category	Simple
Short Term Bank Facilities	20.33 (reduced from 25.64)	IVR A4 (IVR A Four)	IVR A4; Issuer Not Cooperating (IVR A Four; Issuer Not Cooperating)	Reaffirmed and removed from Issuer Not Cooperating category	Simple
<b>Total</b>	<b>40.00</b> <b>(Rupees forty crore only)</b>				

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 removed the rating assigned to the bank facilities of M S V Constructions Company (MSV) from Issuer Not Cooperating category based on adequate information received from the entity for review of its ratings.

Infomerics Ratings has reaffirmed its rating assigned to the bank facilities of MSV and continues to draw comfort from its long operational track record under experienced partners with proven project execution capability and adequate order book size reflecting satisfactory medium-term revenue visibility. The ratings also consider improvement in its financial risk profile marked by improvement in capital structure and moderate debt protection metrics in FY23 (FY refers to period from April 01 to March 31). However, these rating strengths remain constrained due to partnership nature of its constitution, small scale of operation, exposure to geographical and sectorial concentration risk and tender driven nature of business with presence in highly competitive industry.



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Infomerics Ratings has revised the outlook from negative to stable considering the Government's focus on improving infrastructure which is expected to aid the business growth of infrastructure companies/firms in the medium to long term.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Sustained improvement in scale of operations with improvement in profit margins.
- Improvement in the capital structure with improvement in overall gearing to below 1.5x and improvement in debt protection metrics to above 4x.
- Improvement in liquidity position with improvement in operating cycle.

#### **Downward Factors**

- Moderation in the in scale of operation and/or profitability on a sustained basis.
- Deterioration in working capital cycle impacting the liquidity profile of the company.

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

#### **Key Rating Strengths**

##### **Experienced partners with long operational track record**

MSV Construction Company has a long operational track record of over three decades under experienced partners in the field of civil construction.

##### **Proven project execution capability**

Over the past years, MSV has successfully completed many projects across the state of Karnataka and ensured timely completion of all its projects. The repeat orders received from the Government Departments validate its construction capabilities.

##### **Adequate order book size reflecting satisfactory medium-term revenue visibility**

As on March 31, 2024, MSV has a total order book of ~Rs.234.64 Cr (5.18x of FY24 revenue). Out of which MSV is yet to start work for order book aggregating to Rs.76.49 crore. The period of realisation of the same will vary from project to project. The firm expects to execute the entire order book in next 24 months which provides healthy revenue visibility over short to medium term.

##### **Improvement in financial risk profile marked by improvement in capital structure and moderate debt protection metrics**

The capital structure of the firm remained leveraged as on March 31, 2022, at 2.33x which has improved as on March 31, 2023, to 1.95x due to accretion of profits to reserve. The overall



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gearing is estimated to further improve as on March 31, 2024, to 1.70x. Further, the overall indebtedness of the firm marked by TOL/TNW also stood moderate at 1.85x as on March 31, 2024. The debt protection metrics marked by interest coverage improved in FY23 to 3.21x (1.78x in FY22) due to significant rise in absolute EBITDA. However, the same is expected to be moderated in FY24 mainly due to increase in interest outgo during the year.

### **Key Rating Weaknesses**

#### **Partnership nature of constitution**

Given MSV's constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement, or insolvency of the partners. Moreover, the partnership nature limits MSV's flexibility to tap external channels of financing.

#### **Small scale of operation**

The firm's small scale of operations, as reflected by its estimated total operating income of ~Rs. 45 crores in FY24. Small scale of its operations restricts economies of scale of the entity. Further, the intense competition in the operating scenario restricts its pricing flexibility and exerts pressure on margins.

#### **Exposure to geographical and sectorial concentration risk**

The present order book is majorly skewed towards civil construction in the state of Karnataka from various government departments indicating a geographical and sectorial concentration risk. However, the firm has adequate experience to execute projects in this state which provides a comfort.

#### **Tender driven nature of business with presence in highly competitive industry**

The firm participates in the tender passed by the government for civil construction related projects. Hence, the entire business prospects are highly dependent on the government policies and tenders floated by the government. Further, the construction industry is highly fragmented in nature with presence of large number of unorganized players and a few large, organized players.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Infrastructure Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)



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[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Criteria on complexity](#)

### **Liquidity – Stretched**

The liquidity profile of MSV appears stretched due to its working capital-intensive nature of operation marked by elongated operating cycle and the average fund-based limit utilisation remains high at ~99% for past 6 months ended March 2024 indicating limited liquidity cushion. However, the firm expects to achieve cash accruals in the range of Rs.3.95 crore – Rs.5.28 crore against its debt obligation in the range of Rs.0.24 crore – Rs.2.00 crore during FY25-FY27.

### **About the Firm**

Karnataka based MSV Constructions Company, was established in 1990 by Mr. M S Venkatesh, as a sole proprietorship concern engaged in civil construction works, mainly road works for government departments like public works department (PWD). It was reconstituted as a partnership firm in October 2020. It is registered as a Class A contractor with Bruhath Bengaluru Mahanagara Palike (BBMP) & get orders on tender basis.

### **Financials (Standalone):**

For the year ended/ As on*	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	22.65	89.79
EBITDA	2.84	9.52
PAT	0.90	3.50
Total Debt	24.08	35.71
Tangible Net Worth	10.34	18.35
EBITDA Margin (%)	12.53	10.61
PAT Margin (%)	3.93	3.89
Overall Gearing Ratio (x)	2.33	1.95
Interest Coverage (x)	1.78	3.21

\* Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** The ratings of M S V Constructions Company has been moved to Issuer Not Cooperating category by CRISIL as per Press Release dated October 31, 2023, due to unavailability of information.

**Any other information: Nil**

**Rating History for last three years:**



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Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-2025)			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 2021-22
					Jul 07, 2023	Mar 22, 2023	-
1.	SOD	Long Term	18.14	IVR B; Stable	IVR B; Negative; Issuer Not Cooperating	IVR B+; Stable	-
2.	Term Loan	Long Term	1.53	IVR B; Stable	IVR B; Negative; Issuer Not Cooperating	IVR B+; Stable	-
3.	Bank Guarantee	Short Term	15.21	IVR A4	IVR A4; Issuer Not Cooperating	IVR A4	-
4.	Proposed Bank Guarantee	Short Term	5.12	IVR A4	IVR A4; Issuer Not Cooperating	IVR A4	-

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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.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.





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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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
SOD	-	-	-	-	18.14	IVR B; Stable
Term Loan	-	-	-	FY27	1.53	IVR B; Stable
Bank Guarantee	-	-	-	-	15.21	IVR A4
Proposed Bank Guarantee	-	-	-	-	5.12	IVR A4

### Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-MSV-Constructions-jun24.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](http://www.infomerics.com).