



Press Release

Mittal Brothers Engineers and Contractors **December 15, 2023**

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	18.38	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short-Term Bank Facilities (Including Proposed)	64.82	IVR A3 (IVR Single A Three)	Assigned	Simple
Total	83.20 (INR Eighty-three crore and twenty lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Mittal Brothers Engineers and Contractors (MBEC) derives strength from its proven project execution capability under experienced promoters along with its moderate orderbook position indicating satisfactory medium term revenue visibility. Further, the ratings also considered stable operating performance of MBEC with growth in scale of operation in FY23 and its average financial risk profile marked by moderate capital structure and satisfactory debt protection metrics. However, these rating strengths remain partially offset by its modest scale of operation with susceptibility of profitability to volatile input prices. The ratings further considered the exposure of the firm to geographical and client concentration risk coupled with tender driven nature of business in highly fragmented & competitive construction sector.

Key Rating Sensitivities:

Upward factors

- Sustained growth in operating income with improvement in profitability and gross cash accruals.
- Sustenance of the capital structure with overall gearing to remain below 1x and/or improvement in debt protection metrics above 4x

Downward Factors



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- Moderation in operating income and/or profitability and cash accrual impacting the debt protection metrics with moderation in interest coverage ratio to below 2.5x.
- Withdrawal of subordinate unsecured loan of Rs. 5.99 crore from the business and any unplanned capex or avaiatment of any fresh loan leading to deterioration in overall gearing to over 1x
- Stretch in the working capital cycle driven by stretched receivables impacting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoter**

Mr. Akshay Mittal has extensive experience over two decades in the same line of business. The extensive experience has enabled the firm to establish healthy relationships with customers and suppliers. MBEC will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Stable operating performance with growth in scale of operations**

The firm's total operating income witnessed an erratic trend over the last three fiscals (FY21 audited - FY23 audited). The total operating income of MBEC moderated by ~6.24% in FY22 from Rs.78.80 crore in FY21 to Rs.73.88 crore in FY22 mainly on account of the delays in encashing the receivables and execution of few orders during the year. However, the topline of the firm increased by ~69% y-o-y in FY23 to Rs.125.26 crore with better and timely execution of higher orders during the year. Despite improvement in topline in FY23, owing to rise in construction material procurement expenses and other overhead costs, the EBITDA margin of the firm has declined marginally from 8.92% in FY22 to 8.22% in FY23. However, backed by improved absolute EBITDA and reduced finance cost, PAT margin in FY23 has improved to 3.93 % against 3.54% of FY22. GAC has also improved from Rs. 3.31 crore in FY22 to Rs.5.59 crore in FY 23. Till H1 FY24, the firm has managed to churn out revenue of ~Rs.63 crore.

- **Moderate orderbook position provision strong medium term revenue visibility**

The pending order book of the firm stood at Rs. 299.17 crore as on October 31, 2023 which is ~2.38 times of the FY23 revenue. Further, and majority the orders are expected to be



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executed in the coming 12-24 months provide a strong near-to-medium-term revenue visibility for the firm.

- **Average financial risk profile marked by moderate capital structure and satisfactory debt protection metrics**

The net worth of the firm remains moderate at Rs.24.91 crore as on March 31, 2023 after considering the subordinated unsecured loan of Rs.5.99 crore as quasi equity. Backed by accretion of profit to reserve and gradual repayment of vehicle and GECL loans, the long-term debt equity ratio and overall gearing ratio have improved and remained comfortable (after considering subordinated USL as quasi equity) at 0.11x and 0.53x respectively as on March 31, 2023 (0.28x and 0.72x respectively as on March 31, 2022). Total indebtedness of the firm marked by Total Outside Liabilities/ Tangible Net worth has also remained comfortable over the past three account closing date and stood comfortable at 1.17x as on March 31, 2023 (1.62x as on March 31, 2022). Backed by improved EBITDA coupled with reduced finance cost, the interest coverage ratio has improved and stood comfortable at 3.72x in FY23 against 2.10x of FY22. Total debt to EBITDA and Total Debt to GCA both improved and remained satisfactory at 1.29x and 2.38 years respectively as on March 31, 2023, in comparison to 2.23x and 4.44 years as on March 31, 2022).

Key Rating Weaknesses:

- **Modest scale of operation**

The scale of operation of the firm though improved, remained modest at ~Rs.125.26 crore in FY23. Modest scale of operation of the firm in construction sector restricts the financial flexibility of the firm to an extent.

- **Geographical and client concentration risk**

MBEC is predominantly working in the state of Uttar Pradesh. Hence has a high degree of geographical concentration. However, the promoter is trying to expand its business outside Uttar Pradesh. Further, out of the pending orderbook of ~Rs.299.16 crore as on 31st October 2023, ~79% of the order is from U.P. State Bridge Corporation Ltd (UPSBCL), leading to client concentration risk. However, being a government department, the counter party risk is low.

- **Susceptibility of profitability to volatile input prices:**



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Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices.

- **Tender driven nature of business in highly fragmented & competitive nature of the construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the ability to successfully bid for the tenders as the entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with the presence of many players with varied statures & capabilities. Presence of many players restricts the pricing flexibility of the industry participants.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

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

[Criteria of assigning rating outlook](#)

[Criteria on Default Recognition](#)

Liquidity: Adequate

MBEC has generated gross cash accrual of Rs.5.59 crore in FY23 against its debt repayment obligation of ~Rs.1.12 crore. Further, MBEC is expected to generate a steady and healthy cash ranging ~Rs.7-10.50 crore in the projected period FY24-FY26 which would be sufficient enough to meet its small debt repayment obligation. Moreover, the liquidity position of the firm is expected to remain adequate, supported by its comfortable capital structure. The average working capital utilization which stood ~82% during past twelve months ending in September 2023, imparts adequate liquidity buffer. Further, additional comfort can be drawn in the form the unsecured loan from the partners.

About the Firm

Established in 2001 as a partnership firm by Mr. Akshay Mittal and Mrs. Shivani Mittal in Lucknow, Mittal Brothers Engineers and Contractors (MBEC) is engaged in execution of civil construction contracts of roads, bridges, for Public works department of state government of Uttar Pradesh. MBEC is registered as a registered Class A contractor of the government of Uttar Pradesh. One of the partner, Mr. Akshay Mittal has extensive experience over three



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decades in the same line of business. The extensive experience has enabled the firm to establish healthy relationships with customers and suppliers. MBEC will continue to benefit from its experienced management and established relationships with customers and suppliers.

Financials of Mittal Brothers Engineers and Contractors (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	73.88	125.26
EBITDA	6.59	10.29
PAT	2.65	4.94
Total Debt	14.67	13.29
Tangible Net worth	14.25	18.92
Tangible Net worth including Quasi equity	20.24	24.91
EBITDA Margin (%)	8.92	8.22
PAT Margin (%)	3.54	3.93
Overall Gearing Ratio Adjusted (x)	0.72	0.53
Interest Coverage	2.10	3.72

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	18.00	IVR BBB- / Stable	-	-	-
2.	GECL	Long Term	0.38	IVR BBB- / Stable	-	-	-
3.	Bank Guarantee	Short Term	64.50	IVR A3	-	-	-
4.	Proposed	Short Term	0.32	IVR A3	-	-	-



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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).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook
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				(Rs. Cr)	
Cash Credit	-	-	-	18.00	IVR BBB-/ Stable
GECL	-	-	Mar 2024	0.38	IVR BBB-/ Stable
Bank Guarantee	-	-	-	64.50	IVR A3
Short Term Non-Fund Based Limits –Proposed	-	-	-	0.32	IVR A3

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-MittalBrothers-dec23.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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 www.infomerics.com