Mittal Brothers Engineering and Contractors

December 17, 2024

Ratings

Instrument / Facility*	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Cash Credit	18.00	IVR BBB; Stable; (IVR Triple B with Stable outlook)	IVR BBB-; Stable; (IVR Triple B minus with Stable outlook)	Upgraded	Simple
Long Term Bank Facilities - GECL	-	-	IVR BBB-; Stable; (IVR Triple B minus with Stable outlook)	Withdrawn	Simple
Short Term Bank Facilities -Bank Guarantee	80.00 (enhanced from Rs. 64.82 crore)	IVR A3+ (IVR A Three plus)	IVR A3 (IVR A Three)	Upgraded	Simple
Total	**98.00 (Rupees Ninety-Eight crore 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

The upgrade in the ratings assigned to the bank facilities of Mittal Brothers Engineering and Contractors (MBEC) considers improvement in its business performance marked by growth in scale of operations coupled with increase in profitability and its healthy orderbook position providing strong near to medium term revenue visibility. Further, the ratings also continue to consider its experienced partners, moderate capital structure and satisfactory debt protection metrics. However, these rating strengths are partially offset by its geographical and client concentration risk, susceptibility of profit margins to input price fluctuations and exposure to intense competition in a fragmented industry with a tender-based contract-awarding system which restricts margins. The rating assigned to the GECL facility is withdrawn based on request received from the firm along with No due certificate issued by the lender. The rating is withdrawn as per Infomerics policy on withdrawal.

The stable outlook reflects expected improvement in the business performance in the near to medium term underpinned by its satisfactory order book and experience of the partners in the construction industry.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

- Moderation in operating income and/or moderation in profitability leading to moderation in cash accruals on a sustained basis
- Any unplanned capex or availment of any fresh term loan leading to deterioration in overall gearing to over 1x and/or moderation in debt protection metrics
- Stretch in the working capital cycle driven by stretch in receivables impacting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced partners**

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 its customers and suppliers.

- **Improvement in business performance marked by growth in scale of operations**

The firm's total operating income witnessed a y-o-y growth of ~67% from Rs.125.26 crore in FY23 [FY refers to the period from April 1 to March 31] to Rs.209.78 crore in FY24 mainly on account of timely execution of orders during the year. With improvement in topline in FY24, coupled with decrease in construction material procurement expenses and other overhead expenses, the EBITDA margin of the firm has also improved from 8.22% in FY23 to 9.60% in FY24. Further, backed by improved absolute EBITDA, despite increase in finance cost, the PAT margin has improved to 5.18% in FY24 as against 3.93% of FY23. Net cash accruals have also improved from Rs. 5.59 crore in FY23 to Rs.11.84 crore in FY 24. In H1FY25 the firm has reported a revenue of ~Rs.105 crore.

- **Healthy orderbook position providing strong near to medium term revenue visibility**

The pending order book of the firm stood at Rs. 309.38 crore as on October 31, 2024, which is ~1.47 times its FY24 revenue. Further, majority of these orders are expected to be executed in the coming 5-24 months which 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 (ATNW) of the firm remains moderate at Rs. 27.33 crore as on March 31, 2024 (Instances of withdrawal of subordinated unsecured loan has been observed during FY24, hence, the unsecured loans has not been treated as quasi equity from FY24 onwards). Despite increase in term loan and unsecured loan, the long-term debt equity ratio has improved and remained comfortable at 0.37x as on March 31, 2024 (0.46x as on March 31, 2023). Backed by accretion of profit to reserve, despite increase in total debt, the overall gearing ratio improved to 0.80x as on March 31, 2024 (1.02x as on March 31, 2023). Total indebtedness of the firm marked by Total Outside Liabilities/ Adjusted Tangible Net worth though continues to remain comfortable has moderated to 1.73x as on March 31, 2024 (1.54x as on March 31, 2023). Backed by improved EBITDA, despite increase in finance cost, the interest coverage ratio has improved and stood comfortable at 5.76x in FY24 as against 3.72x of FY23. Total debt to EBITDA and Total Debt to NCA both improved and remained satisfactory at 1.09x and 1.85 years respectively as on March 31, 2024, in comparison to 1.29x and 2.38 years respectively as on March 31, 2023).

Key Rating Weaknesses

- **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 firm is trying to expand its business outside the state of Uttar Pradesh. Further, out of the pending orderbook of ~Rs.309.38 crore as on October 31, 2024, ~61% of the order is from U.P. State Bridge Corporation Ltd (UPSBCL) and ~26% of the order is from Lucknow Development authority, leading to client concentration risk. However, being government departments, the counter party credit risk is low.

- **Intense competition in a fragmented industry with a tender-based contract-awarding system restricts margins**

The civil construction industry is intensely competitive on account of its fragmented nature along with the presence of several players. This coupled with the lowest-bidding-business-procurement structure keeps the margins of all players, including MBEC under check. Moreover, the firm is also exposed to risks inherent in the construction sector, such as a slowdown in new order inflows and the risks of delays in execution.

- **Susceptibility of profit margins to input price fluctuations**

The firm's profit margins are exposed to raw material (mainly steel, cement, sand and other metals) price fluctuations. Operations are also vulnerable to price variations in key raw materials. However, the risk is largely mitigated in the case of contracts that include an escalation clause. The firm passes on the increase in the raw material prices to its customers to an extent but with a lag.

- **Risk inherent in partnership firm**

MBEC's constitution as a partnership firm exposes it to adverse capital structure risk, wherein any substantial capital withdrawal could negatively impact its net worth and the capital structure.

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

Complexity Level of Rated Instruments/Facilities

Policy on withdrawal of Ratings

Liquidity – Adequate

The liquidity position of the firm is expected to remain adequate in the near term marked by its expected adequate gross cash accruals in the range of ~Rs.15.10 to ~Rs. 22.80 crore as against its nominal debt repayment obligations in the range of ~Rs.0.33 to ~Rs. 0.92 crore during FY25-FY27. Further, on the back of its satisfactory capital structure, the firm has adequate gearing headroom. The current ratio also stood comfortable at 1.13x as on March 31, 2024. Further, the average fund based working capital utilisation remained moderate at

~84% during the past 12 month's period ended October 2024, which imparts satisfactory liquidity buffer.

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 (PWD) of state government of Uttar Pradesh. MBEC is registered as a registered 'Class A' contractor of the government of Uttar Pradesh.

Financials (Standalone):

(Rs. Crore)

For the year ended / As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	125.26	209.78
EBITDA	10.29	20.15
PAT	4.94	10.91
Total Debt	13.29	21.88
Tangible Net worth	18.92	27.33
Adjusted Tangible Net Worth	24.91	27.33
EBITDA Margin (%)	8.22	9.60
PAT Margin (%)	3.93	5.18
Overall Gearing Ratio	0.53	0.80
Interest Coverage (x)	3.72	5.76

**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 Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	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
					Dec 15, 2023	-	-
1.	GECL *	Long Term	-	Withdrawn	IVR BBB-; Stable	-	-
2.	Cash Credit	Long Term	18.00	IVR BBB; Stable	IVR BBB-; Stable	-	-
3.	Bank Guarantee^	Short Term	80.00	IVR A3+	IVR A3		-

*GECL of Rs. 0.38 crore rated earlier is withdrawn based on request received from the firm along with No due certificate issued by the lender ^Proposed non-fund based limit of Rs. 0.32 crore rated earlier is now sanctioned

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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.

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

For more information and definition of ratings please visit www.infomerics.com.

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	-	-	-	-	18.00	IVR BBB; Stable
Bank Guarantee	-	-	-	-	80.00	IVR A3+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-MBEC-dec24.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.