



Infomerics Valuation And Rating Pvt. Ltd.

MMR Construction Company Private Limited

October 9, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Bank Facilities	5.00	IVR BB/Stable Outlook(IVR Double B with Stable Outlook)
3.	Short Term Bank Facilities	30.00	IVR A4 (IVR A Four)

Details of Facilities are in Annexure 1

Detailed Rationale

The rating draws comfort from the company's experienced promoters, revenue visibility backed by moderate order book, highly experienced managerial and technical team and comfortable capital structure. These strengths are partially offset by small scale of operations of the Company, highly fragmented & competitive nature of the electrical contracting industry, client concentration risk albeit low counterparty risk, high exposure to group companies, moderation in profitability with modest debt protection metrics and stretched operating cycle.

Key Rating Sensitivities:

Upward factors

- Improvement in scale of operations with regards to the construction business
- Occupancy in the commercial building and rentals from the same
- Improvement in debt protection metrics
- Improvement in the receivables position and operating cycle

Downward factors

- Decline in revenue from construction segment
- Deterioration in capital structure marked by TOL/TNW to above 3x
- Further elongation of the operating cycle



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoter Mr. Mahipal Singh Raghav has a vast experience of over three decades in the construction industry. Long-standing presence in the construction industry has helped the company to establish relationship with both customers and suppliers. His sons, Mr. Mohit Singh Raghav and Mr. Rahul Singh Raghav are directors in the company and handling the day to day affairs under his guidance. The promoters have interest in various sectors like NBFC, man power service, leasing, investment and broking through their various companies. The business risk profile is underpinned by the promoter's extensive experience.

Revenue visibility backed by moderate order book

MMR had an order book of Rs.31.13crore as on August 31, 2019 (1.12x of its FY19 (Prov) construction revenue) which is to be executed within FY20 and thus provides healthy revenue visibility over the near term.

Highly experienced managerial & technical team

The management team of the company includes highly qualified & experienced professionals with many experienced engineers having rich credentials in the Power sector.

Comfortable capital structure

The capital structure of the company remained comfortable marked by its satisfactory below unity overall gearing ratio as on the last three account closing dates ending on March 31, 2019. Further, total indebtedness of the company as reflected by its TOL/TNW remained satisfactory at 2.67x as on March 31, 2019. However, the overall gearing ratio is expected to be moderated in next financial year due to avilment of term loan of ~Rs.5crore to complete sector 62, Noida project along with cash credit facility to fund its working capital requirements.

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Key Rating Weaknesses

Small scale of operations

MMR has a small scale of operations with a total operating income of Rs.27.72crore in FY19 (Prov.) in an intensely competitive industry which is marked by the presence of large companies as well as several small players. Though the scale is expected to improve over the medium term on the back of extensive experience of promoters and a moderate order book, it will continue to remain small. Small scale of operations restricts the financial flexibility of the company.

Highly fragmented & competitive nature of the electrical contracting industry

The electrical contracting industry is highly crowded with presence of many players with varied statures & capabilities. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the sustenance and healthy growth of the industry.

Client concentration risk; albeit low counter party risk

Till now the company has been executing electrical contracting projects mainly for Power Transmission Corporation of Uttarakhand Limited (PTCUL) which exposes it to client concentration risk. Also, the outstanding order book of Rs.31.13crore comprises of projects from PTCUL only. Though the company also has some orders for civil and electrical work of Rs.5-6crore from private entities, however there continues to be high dependence on PTCUL. However, PTCUL being a government organization the counter party risk appears low.

High exposure to group companies

The company has high exposure in its group companies (Rs.31.31crore as on March 31,2019 which is about 91% of its total net worth as on the aforesaid date) in the form of loans and advances and investment. High exposure to group companies restricts the credit risk profile of the company.



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Moderation in profitability with modest debt protection metrics

The company has witnessed a moderation in its total operating income in FY19 due to lower execution of contracts. With moderation in its total operating income the operating margin of the company also dampened in FY19 (Prov.). However, the PAT margin has improved from 3.35% in FY18 to 8.68% in FY19 (Prov.) backed by non-operating income of Rs.3.93crore mainly from profit on sale of shares. However, the debt protection parameters of the company remained average with the interest coverage ratio of 1.25x and Total debt/ GCA of 3.36x.

Stretched operating cycle

The operating cycle of the company is highly stretched due to its elongated collection period. Further, the average inventory period of the company also remained high on account of inclusion of commercial building in Sector 62 Noida and some residential plots in its inventory.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The liquidity position of the company remained stretched marked by its elongated operating cycle due to its high receivable period and lack of working capital limits. However, the company has sought enhancement in bank lines supported by above unity current ratio.

About the Company

Incorporated in 2008, Noida based MMR Construction Company Private Limited (MMR) was promoted by Mr. Mahipal Singh Raghav. The company commenced operations in 2015 and is engaged in execution of electrical contracts through EPC route for government agencies. Apart from execution of electrical contracts the company is also constructing a commercial building at Sector 62 Noida, having leasable area of 1.71lacs square feet for the purpose of leasing.

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Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	38.32	27.72
EBITDA	4.33	2.41
PAT	1.29	2.75
Total Debt	11.11	10.29
Tangible Net worth	21.45	34.26
EBITDA Margin (%)	11.30	8.71
PAT Margin (%)	3.35	8.68
Overall Gearing Ratio (x)	0.52	0.30

*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 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Proposed Term Loan	Long Term	5.00	IVR BB/Stable	-	-	-
2.	Short Term Non-Fund Based Limits –Inland Bank Guarantee*	Short Term	15.00	IVR A4	-	-	-

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3.	Short Term Non-Fund Based Limits-Proposed Letter of Credit [#]	Short Term	15.00	IVR A4	-	-	-

**Sublimit of Rs.3crore of ILC*

Interchangeable with CC

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.

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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.

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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 Bank Facilities- Proposed Term Loan	-	-	-	5.00	IVR BB/Stable
Short Term Bank Facilities –Inland Bank Guarantee*	-	-	-	15.00	IVR A4
Short Term Bank Facilities –Proposed Letter of Credit [#]	-	-	-	15.00	IVR A4

*Sublimit of Rs.3crore of ILC

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