

Press Release

M M Brothers

December 29, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated	Rs. 97.00 crore (Enhanced from Rs. 65.00 crore)
Long Term Rating	ACUITE BB+/ Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) and the short term rating of '**ACUITE A4+** (read as ACUITE A four plus)' to the Rs. 65.00 crore bank facilities of M M Brothers (MMB). The outlook is '**Stable**'.

Further, Acuité has assigned the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) and the short term rating of '**ACUITE A4+** (read as ACUITE A four plus)' to the Rs. 32.00 bank facilities of M M Brothers (MMB). The outlook is '**Stable**'.

MMB is a Rajasthan-based proprietorship firm established in 1980 and converted into a partnership firm in April 2010 to undertake power and transmission projects for the government. The firm executes electrical works such as laying of underground cable, erection and commissioning of sub-stations, survey, installation for government bodies.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MMB to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and reputed clientele

MMB was established in 1980 by Mr. Dhoop Chand Sogani and is currently managed by Mr. Sunil Sogani Tiwari and Mrs. Sangeeta Sogani. The firm has established track record of more than three decades in the same line of business. The promoters possess vast experience of over three decades in this industry and are ably assisted by an experienced second line of management. The firm has order book of Rs.172.12 which shall be executed in next one year. The strong project execution capability of the firm has helped it secure repeat orders from reputed clients.

Acuité believes that MMB will benefit from experienced management which will help the firm to maintain long standing relations with its customer such as Jaipur Vidyut Vitran Nigam Limited, Rajasthan State Road Development Construction Corporation, National Highway Authority of India among others and suppliers.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs.19.67 crore as on 31 March, 2018 as against Rs.16.78 crore in the previous year. The improvement in net worth is on account of addition of capital by the partners. The net worth includes unsecured loan of Rs.8.38 crore as on 31 March, 2018 from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing stood comfortable at 0.41 times as on 31 March, 2018 as against 0.62 times in the previous year. The total debt of Rs.8.09 crore includes term loan from bank of Rs.0.60 crore and working capital borrowing of Rs.7.50 crore. Interest Coverage Ratio (ICR) stood at 2.56 times in FY2018 as against 1.73 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.01 times as on 31 March, 2018 as against 1.20 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.52 times in FY2018 compared to 0.20 times in FY2017.

Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- Working capital intensive operations**

The firm has working capital intensive operations due to requirement of various deposits mainly for bank guarantee. The Gross Current Assets (GCA) stood at 264 days in FY2018 as against 222 days in FY2017, while the collection period stood at 84 days during FY2018 against 26 days in FY2017. Other current assets of Rs.19.72 crore for FY2018 comprises mainly of advances to suppliers and deposits against bank guarantee.

Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- Moderate scale of operations due to tender based nature of business**

The operations of the MMB are considered to be at moderate level despite the firm being in the construction business from last 37 years. The firm has achieved operating income of Rs.67.70 crore in FY2017-18 as compared to Rs.47.53 crore in FY2016-17. Being a civil contractor, the revenue of MMB depends on the number of successful bids and the tenders being released in the financial year. However, with current order book, the firm exhibits revenue visibility for next financial year.

Outlook: Stable

Acuité believes that MMB will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.70	47.53	47.24
EBITDA	Rs. Cr.	6.88	4.77	3.75
PAT	Rs. Cr.	4.00	1.89	1.57
EBITDA Margin	(%)	10.32	10.04	7.94
PAT Margin	(%)	5.99	3.97	3.32
ROCE	(%)	24.35	20.12	17.82
Total Debt/Tangible Net Worth	Times	0.41	0.62	0.39
PBDIT/Interest	Times	2.56	1.73	1.88
Total Debt/PBDIT	Times	1.18	2.09	1.51
Gross Current Assets (Days)	Days	264	222	243

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-up.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Mar-2018	Cash Credit	Long Term	7.00 (Enhanced from Rs.5.00 crore)	ACUITE BB+/ Stable (Upgraded from ACUITE BB /Stable)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	53.00 (Enhanced from Rs.30.00 crore)	ACUITE A4+ (Reaffirmed)
14-Dec-2016	Cash Credit	Long Term	5.00	ACUITE BB/Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+ / Stable (Reaffirmed)
Overdraft Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee I	Not Applicable	Not Applicable	Not Applicable	53.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee II	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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