Press Release

M M Brothers

March 04, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs. 97.00 crore
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs. 9.00 crore bank facilities and the short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 88.00 crore bank facilities of M. M. BROTHERS (MMB). The outlook is **'Stable'**.

The rating upgrade reflects the improvement in scale of operations along with the profitability which has led to overall improvement in the financial risk profile of the firm. The revenue of the firm improved to Rs. 160.98 crore in FY2019 as against Rs. 66.70 crore in FY2018 and Rs. 47.53 crore in FY2017, registering a growth of 141.35 per cent in FY2019. This had led to increase in net cash accruals to Rs.18.63 crores for FY2019 from Rs. 4.20 crore for FY2018. The upgrade also reflects an upward trend in the profitability margins as evident from operating margins (EBITDA) of 13.08 per cent in FY2019 as against 10.23 per cent in FY2018 and net profit margins (PAT) of 11.40 per cent in FY2019 as against 5.99 per cent in FY2018. Owing to improved scale of operations as well as healthy profitability, there is a significant improvement in the debt protection metrics, marked by Debt Service Coverage Ratio of 8.26 times for FY2019 as compared to 2.33 times for FY2018 and Interest Coverage Ratio (ICR) of 8.67 times for FY2019 as compared to 2.60 times for FY2018. Further, improved efficiency of working capital operations marked by improvement in GCA days to 105 days in FY2019 from 193 days in FY2018 has led to lower reliance on external borrowings, evident from ~62.86 per cent average utilization of working capital limits during nine months period ending November 2019. The rating is however constrained due to subdued performance in current financial year i.e. FY2020, as reflected by a revenue of Rs. 66.74 crore during 8MFY2020.

Jaipur based, M. M. Brothers was established as a proprietorship concern in 1980 by Late Mr. Dhoop Chand Sogani and was reconstituted as a partnership firm in April 2010. The firm is currently promoted by Mr. Mukesh Sogani, Mr. Sunil Sogani and Mrs. Sangeeta Sogani. MMB is a government contractor for electrical works, such as laying of underground cable, erection and commissioning of sub-stations. The firm further executes survey, installation, testing, shifting of line/ cable, street lighting work and commissioning of 11 KV to 33 KV electrical lines, meters and transmission towers.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

MMB was established in 1980 and is engaged in the execution of electrical works, such as laying of underground cable, erection and commissioning of sub-stations. The firm has established track record of around four decades in the aforementioned line of business. Further, the partners of the firm are ably supported by an experienced team which has extensive experience in its respective domain.

Due to the firm's established track record of operations and management experience, MMB has booked the revenue of Rs. 160.98 crore in FY2019 as compared to Rs. 66.70 crore in FY2018 and Rs. 47.53 crore in FY2017. Further, the firm has booked revenue of Rs. 66.74 crore during 8MFY2020. MMB has an unexecuted order book position of Rs. 119.62 crore as on date providing revenue visibility over the medium term. The orders are spread across various government organizations such as Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited, Jodhpur Vidyut Vitran Nigam Limited and Jaipur Development Authority, to name a few.

Acuité believes that the group will continue to benefit from its established track record of operations and experienced management.

- **Healthy financial risk profile**

The financial risk profile of the firm is healthy marked by healthy net worth, gearing, debt protection metrics and coverage indicators.

The net worth of the firm is healthy, estimated at around Rs. 39.75 crore as on 31st March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy profitability along with infusion of funds in the form of unsecured loans to the tune of Rs. 4.50 crores. Further, there is an infusion of Rs. 0.22 crore in the form of unsecured loans which is subordinated to banking limits.

The firm has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.63 times as on 31st March, 2017 and 2.01 times as on March 31, 2018. The leverage levels continue to remain low at 0.26 times as on March 31, 2019. The firm incurred capex of Rs. 1.12 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs. 6.95 crore. MMB's healthy cash accruals to the tune of about Rs. 18.63 crores have supported in minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.26 times and Rs. 10.50 crores as on March 31, 2019. The total debt of Rs. 10.50 crore as on 31 March 2019 comprises of long-term borrowings of Rs. 3.11 crores and working capital borrowings of Rs. 7.40 crores. MMB's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 9.66 to 12.03 crores which are comfortable to service its repayment obligations while supporting about 100 per cent of the routine capex and incremental working capital requirements.

The revenues of the firm increased by around 141.35 per cent to Rs. 160.98 crore during 2018-19, along with improvement in its operating margins from 10.23 per cent in FY2018 to 13.08 per cent in FY2019. The above average profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were healthy at 1.77 per cent and 8.67 times, respectively.

Acuité believes that the financial risk profile of the firm is expected to remain healthy on back of absence of any major debt funded capex plan and healthy accretion to reserves.

Weaknesses

- **Working capital intensive nature of operations**

MMB's operations are moderately working capital intensive in nature as reflected by its gross current asset (GCA) of around 105 days as on March 31, 2019. The firm maintains an inventory of around 56 days. On the other hand, the company gets a credit period of around 90 days from its suppliers. Further, it allows a credit period of 30 days to its customers. MMB's fund-based working capital limits over the last nine month period ending November 2019 was utilized at an average of 62.86 per cent.

Acuité expects the working capital requirements of the firm to remain moderately intensive on account of the high inventory levels maintained by the firm.

Rating Sensitivity

- Decline in profitability levels thereby impacting firm's debt coverage indicators.
- Increase in average utilization levels of working capital limits along with deterioration in liquidity.

Material Covenants
None

Liquidity: Strong
The firm has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.18.63 crore during FY2019, against maturing debt obligations of Rs. 0.13 crore. The cash accruals of MMB are estimated to remain in the range of Rs. 9.66 crore to Rs. 14.24 crore in FY2020-22 as against repayment obligations of around Rs. 0.13 crore, every year. The current ratio of the firm stood at 1.21 times as on March 31, 2019. The average fund based working capital utilization for past nine months stood at 62.86 per cent, ended November, 2019 whereas average non-fund based working capital utilization for the same period stood at ~41 per cent. The unencumbered cash and bank balances of MMB stood at Rs. 0.10 crore as on March 31, 2019 (PY: 0.05 crore).

Acuité believes that the liquidity profile of the firm is likely to remain strong over the medium term on account of healthy profitability thereby resulting in healthy cash accruals to its maturing debt obligation.

Outlook: Stable
Acuité believes that MMB will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to the extensive experience of partners. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the firm generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	160.98	66.70
PAT	Rs. Cr.	18.36	4.00
PAT Margin	(%)	11.40	5.99
Total Debt/Tangible Net Worth	Times	0.26	0.41
PBDIT/Interest	Times	8.67	2.60

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels-55.htm

Rating History (Up to previous three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/ Outlook
December 29, 2018	Cash Credit	Long Term	7.00	ACUITE BB+/ Stable (Reaffirmed)

	Overdraft Facility	Long Term	2.00	ACUITE BB+/ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee I	Short Term	53.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee II	Short Term	30.00	ACUITE A4+ (Assigned)
March 07, 2018	Cash Credit	Long Term	7.00 (Enhanced from Rs. 5.00 crores)	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 crores)	ACUITE A4+ (Reaffirmed)

*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 BBB-/ Stable (Upgraded from ACUITE BB+/ Stable)
Overdraft Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/ Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	83.00	ACUITE A3 (Upgraded from ACUITE A4+)

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About Acuité Ratings & Research:
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as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.