

Press Release

M M Brothers

September 27, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	88.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	9.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	97.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed long-term rating at '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating from '**ACUITE A3**' (read as **ACUITE A three**) on Rs.97.0 crore of bank facilities of **M M Brothers (MMB)**. The outlook is '**Stable**'.

Rationale for Reaffirmation

The reaffirmation in ratings take into account improvement in total operating income led by satisfactory order book position. Further, ratings also factor in the comfortable financial risk profile with improved working capital management resulting in adequate liquidity. The above ratings are, however underpinned by moderation in profitability margin, concentration of order book on clientele and geographical front led by tender based nature of business.

About the Company

Established in 1980, M. M. Brothers is a government contractor for electrical works, such as Laying of underground cable, erection and commissioning of Sub-Stations, survey, installation, testing, Shifting of line/cables, street lighting work and commissioning of 11 kilovolt (KV) to 33 KV electrical lines, transmission towers, and meters. M. M. Brothers was established by Late Mr. Dhoop Chand Sogani as a proprietorship concern, MMB was reconstituted as a partnership firm in April 2010.

Analytical Approach

Acuite has considered standalone financial and business risk profile of M M Brothers

Key Rating Drivers

Strengths

Satisfactory financial performance in FY22

The financial performance of the entity improved in FY22, wherein the total operating income

increased from Rs.41.44 crores in FY21 to Rs.69.37 crores in FY22 (Prov.). The operations of the entity remained subdued in FY21 led by COVID induced lockdown. However, the same increased in FY22 led by relaxation in COVID norms. Hence, in line with total operating income, the operating profit also increased to Rs.9.16 crore in FY22 vis-à-vis Rs.6.70 crore in FY21. The net profit increased to Rs.9.16 crore in FY22 (Prov.) as against Rs.7.94 crores in FY22 on an account of lower capital charge (interest and depreciation). Consequently, PAT margin also increased to 9.16% in FY22 vis-à-vis 7.94% in FY21. Acuite believes, that albeit the performance of the company has improved, the company is yet to achieve the pre COVID revenue and profitability. The ability to achieve the same would be key monitorable factor.

Comfortable financial risk profile

The capital structure of the firm as represented by debt –equity ratio improved to 0.46 times as on March 31, 2022 (Prov.) vis-à-vis 0.81 times as on March 31, 2021. The improvement is led by decline in total debt coupled with increase in tangible net worth. In line with increase in operating profit, the interest coverage ratio also improved to 3.12 times during FY22 as against 2.12 times in FY21. Similarly, the total outstanding liability to tangible net worth also improved to 0.92 times in FY22 as against 1.15 times in FY21. The net cash accruals to total debt increased by 34bps in FY22 from 0.16 times in FY21.

Acuite believes that the financial risk profile is expected to improve going ahead led by accretion of profit to reserves. Further, the firm is not planning to avail any additional term loan.

Satisfactory order book position

The order book of the firm remained at Rs. 259.67 crore as on September 2022, thereby translating into order book to gross billing ratio of 3.0 times and also provides medium term revenue visibility. The order book is spread across 7 active orders with ticket size ranging between Rs.1.0 crore-130.0 crore. The firm executes majority of orders for State Government entities. The firm has also been adding orders on year on year basis, thereby maintaining the revenue visibility. The firm also received mobilization advances of 10% of total project cost for Kolkata Project. The retention amount ranges between 3%-10% for bills raised.

Improved working capital management

The Gross Current Asset days of the company improved to 207 days in FY22 vis-à-vis 411 days in FY21. The improvement is led by decline in current assets in the form of debtors and inventory coupled with increase in total operating income in FY22. The debtor days remained at 41 days in FY22 (122 days in FY21). As per discussion with management, the company raises bill every 30-45 days and is realized within 15 days. The major material involves cable which is procured locally. The creditor days remained at 53 days in FY22 as against 99 days in FY21. The materials are purchased against 90 days LC. The average working capital utilisation for the past 9 months ending June 2022 remained at ~74%. Acuite believes that timely realization of receivables is important to maintain the working capital management.

Weaknesses

Geographical and clientele concentration

The firm executes majority of orders for State Government entities. In addition to this, there is also concentration of order book with top three orders constituting to ~83% of active order book. Further, there is also client concentration wherein 49% of order is being executed for 'West Bengal State Electricity Distribution Limited'. In addition to this, there is also concentration of order book with top three orders constituting to ~83% of active order book. Hence, timely execution of same is critical from rating perspective.

Tender based operation

The industry is unorganized and highly competitive and hence, the revenue generation is dependent on ability of company in succeeding in receiving tenders.

Withdrawal of capital

As MMB is a partnership firm, there is also a risk of capital withdrawal which can impact financial risk profile of the firm. However, there has not been any major withdrawal in last three years.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Significant improvement in order book.

>Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.

>Any delay in execution of work orders.

Material covenants

None

Liquidity Position: Adequate

Adequate

The liquidity profile of the firm continues to remain at adequate level with net cash accruals of Rs.6.60 crores as against debt repayment of Rs.0.09 crores. The cash and bank balance remained at Rs.0.03 crores as on March 31, 2022 (Prov.). The current ratio continues to remain above 3.0 times during FY21-22. The DSCR continues to remain at 2-3 times. The net cash accrual continues to remain at adequate level at Rs.12.0-18.0 crores during FY23-24 as against Rs.0.13-0.30 crores during FY23-24.

Outlook: Stable

Acuité believes that the outlook on BIL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability and successful execution of work orders. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company and delay in execution of work order.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	69.37	41.44
PAT	Rs. Cr.	6.35	3.29
PAT Margin	(%)	9.16	7.94
Total Debt/Tangible Net Worth	Times	0.46	0.81
PBDIT/Interest	Times	3.21	2.12

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

ICRA, vide its press release dated April 14, 2022 had rated MM Brothers to 'IICRA BB-/A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Jun 2021	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Reaffirmed)
	Secured Overdraft	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	53.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
04 Mar 2020	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	83.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Secured Overdraft	Long Term	2.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
29 Dec 2018	Cash Credit	Long Term	7.00	ACUITE BB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	2.00	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	53.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A4+ (Assigned)
07 Mar 2018	Cash Credit	Long Term	7.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	53.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	47.00	ACUITE A3 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A3 Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Reaffirmed
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned 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 Kanjurmarg, Mumbai.

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