

Press Release

Mfar Constructions Private Limited

March 01, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 163.95 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-** (read as **SMERA BBB minus**)' and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 163.95 crore bank facilities of Mfar Constructions Private Limited. The outlook is '**Stable**'.

MFAR Constructions Private Limited (MCPL) is a Bengaluru-based construction company promoted by Dr. P. Mohamed Ali and Mr. Anoop Chemmanur. The company undertakes EPC contracts (engineering, procurement and construction) for the real estate industry.

Key Rating Drivers

Strengths

- **Established track record of promoters**

The company is engaged in the construction of residential and commercial property since 1996. The company benefits from its experienced promoters. Dr. P. Mohamed Ali and Mr. Anoop Chemmanur who possess experience of over four decades in the construction industry. MCPL is part of the MFAR group which has presence in manufacturing, construction and hospitality industries. MCPL is also an associate of Galfar Engineering and Contracting SAOG, a Gulf-based company with more than four decades in the construction industry.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by low adjusted gearing of 0.56 times as on March 31, 2016. To arrive at the adjusted gearing, interest free unsecured loan of Rs.9.87 cr as on March 31, 2016 from promoters has been considered as part of equity (same is subordinated to bank debt). The tangible net worth stood at Rs.134.31 cr as on 31 March, 2016 as against Rs. 123.94 cr in the previous year. Further, the company infused capital of Rs. 10.47 cr as on 30 June, 2016 and is expected to bring-in dividend-free preference share capital to the tune of Rs. 25.00 cr which will be compulsorily converted into equity after five years. This is expected to reduce reliance on external debt. The Interest coverage ratio (ICR) stood at 1.54 times for FY2015-16. However, with low reliance on external debt the expected ICR is in the range of 2 to 3 times in FY 2016-17 and FY2017-18.

- **Long standing relationships with leading real estate players**

MCPL has been catering to the leading players in the real estate sector like Shriram Properties Private Limited, Century Real Estate Holdings Private Limited and BCV Developers Private Limited. This has enabled the company to navigate the business cycles successfully. The established relations with its customers has also resulted in a healthy order book of Rs. 680.00 cr as on 31 December, 2016 that provides revenue visibility for the medium term.

Weaknesses

• Susceptibility of operating performance to the real estate cycle

The company reported operating income of Rs.310.55 cr for FY2015-16 as against Rs.375.02 cr in the previous year. The decline has been mainly on account of sluggish conditions in the real estate market. Further, MCPL is also exposed to geographic concentration risk as 75 percent of revenue is derived from Bengaluru. Hence, any slowdown in the Bengaluru real estate market can have an adverse impact on operations. However, for 9MFY201-17, MCPL reported operating income of Rs.287.27 cr (provisional) as against Rs. 239.15 cr during the corresponding period last year.

• Working capital intensive operations

The operations are working capital intensive with gross current asset days of 354 for FY2015-16 as against 282 for FY2014-15. This is mainly on account of stretched receivables of 159 days and inventory of 199 days as on 31 March, 2016. The overall sluggish environment in the real estate sector has led to the players either slowing down their project execution or deferring payments to their vendors. This results in lengthening of the working capital cycles of players like MCPL. However, MCPL has focussed on expedition of collection from customers resulting in improvement in working capital cycle as the same stood at 85 days as on 31 December, 2016 as against 169 days as on 31 March, 2016. This is also evident from the average working capital limit utilisation which stood at ~84 percent for the last six months ended 30 November, 2016. Further, SMERA believes that the efficient management of working capital cycle by MFAR will be crucial to the maintenance of a stable liquidity profile.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of MFAR.

Outlook: Stable

SMERA believes that the outlook on MCPL's rated facilities will remain stable over the medium term on account of the promoters' extensive experience and long standing relations with leading players in the industry. The outlook may be revised to 'Positive' if the company registers significantly higher than expected revenue along with improvement in margins and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and margins or elongation in the working capital cycle. Any large, debt-funded capex undertaken that leads to deterioration in the financial risk profile may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

MCPL, incorporated in 1996, is a Bengaluru-based company promoted by Dr. P. Mohamed Ali and Mr. Anoop Chemmanur who possess more than four decades of experience in the real estate construction industry. The company undertakes engineering, procurement and construction projects in residential, commercial, hospitality and industrial sectors. The company has regional offices at Bengaluru, Kolkata and Gurugram. The company is ISO 9001-2008, ISO 14001-2004 and OHSAS 18001-2007 certified. For FY2015-16, MCPL reported profit after tax (PAT) of Rs.2.66 cr on operating income of Rs.310.55 cr, as against PAT of Rs.4.45 cr on operating income of Rs.375.02 cr in FY2014-15.

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

Not applicable

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BBB- / Stable
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.45	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	32.50	SMERA A3

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