Press Release

Mfar Constructions Private Limited

May 23, 2018

Rating Upgraded, Withdrawn and Assigned

Total Bank Facilities Rated*	Rs. 163.95 Crore
Long Term Rating	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Short Term Rating	SMERA A3+ (Upgraded from SMERA A3)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded long term ratings to **'SMERA BBB' (read as SMERA triple B)** from **'SMERA BBB-' (read as SMERA triple B minus)** and short term ratings to **'SMERA A3+' (read as SMERA A three plus)** from **'SMERA A3' (read as SMERA A three)** on the Rs.155.95 crore bank facilities of Mfar Constructions Private Limited (MCPL).

Further, SMERA has withdrawn the short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.10.00 crore bank facility and has assigned long term rating of **'SMERA BBB' (read as SMERA triple B)** on the Rs.8.00 crore bank facility of MCPL. The outlook is **'Stable'**.

The upgrade is driven by healthy growth in profitability and net cash accruals & capital infusion by the promoters. The operating margin has improved to 9.56 percent for FY2018 (provisional) as compared to 7.40 percent in FY2017. The profit after tax (PAT) margin improved to 3.18 percent for FY2018 (provisional) as against 1.19 percent in FY2017. The net cash accruals of the company have grown to Rs.12.17 crore in FY2018 (provisional) from Rs.6.40 crore. This has resulted in improvement in the company's financial risk and liquidity profile. SMERA believes that MCPL should be able to sustain its current revenue growth and profitability margins over the near to medium term on account of its established track record of execution and healthy order book position.

The ratings continue to derive support from the company's established track record of promoters, longstanding relations with leading players and above average financial risk profile. However, the ratings are constrained by susceptibility of the operating performance to real estate cycle and working capital intensive operations.

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. The company caters to reputed clients in the real estate industry and derives around 80 percent of its revenue from Bengaluru and Mangalore real estate market while remaining is derived from Kolkata and Gurgaon real estate market.

Key Rating Drivers

Strengths:

Established track record and experienced management

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

Longstanding relationship with leading real estate players

MCPL has been catering to the leading players of the real estate sector like Shriram Properties Private Limited, Century Real Estate Holdings Private Limited, Brigade Enterprises Limited and Prestige group, which has enabled the company to navigate the business cycles successfully. The established relations with its customers has also resulted in healthy order book of Rs.912.00 crore as on 1 April, 2018 that provides revenue visibility for the medium term.

Above average financial risk profile

The company has reported improvement in the financial risk profile marked by improvement in interest coverage ratio as same stood at 2.76 times for FY2018 (provisional) as compared to 1.59 times in the previous year. The debt service coverage ratio stood at 2.25 times FY2018 (provisional) as compared to 1.40 times in the previous year. The gearing continues to remain comfortable at 0.45 times as on March 31, 2018 (provisional) as against 0.47 times in the previous year. Further, total debt of Rs.75.33 crore mainly consists of short term borrowings of Rs.74.79 crore as on March 31, 2018 (provisional). The tangible networth stood at Rs.166.53 crore as on March 31, 2018 (provisional) as against Rs.158.04 crore as on March 31, 2017. The improvement in financial risk profile is also supported by continuous capital infusion by promoters in order to reduce reliance on external borrowings for meeting its working capital requirements.

Weaknesses:

Susceptibility of the operating performance to real estate cycle

The company has reported operating income of Rs.264.82 crore for FY2018 (provisional) as against Rs.253.81 crore in FY2017 and Rs.310.55 crore in FY2016. The company has a healthy order book position of Rs.912.00 crore as on 1 April, 2018 that provides revenue visibility for the medium term. The decline in revenue during FY2017 over FY2016 was mainly on account of slowdown in execution by the company prompted by sluggish condition in the real estate market.

Further, MCPL is also exposed to the level of economic and industrial activity in Bengaluru and Mangalore as the company derives 80 percent of its revenue from these two markets. Hence, any slowdown in the Bengaluru real estate market is likely to affect the company's operations.

Working capital intensive nature of operations

The operations are working capital intensive in nature which is reflected by the high gross current asset days (GCA) of around 369 for FY2018 (provisional) as against 382 for FY2017. This is mainly on account of stretched receivable days of 138 and inventory days at 229 in FY2018.
The overall sluggish environment in the real estate sector in the past 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 cycle of players like MCPL. However, the company has comfortable liquidity position with average bank limit utilisation at around 86 percent during the last six months ended as on 30 April, 2018. The liquidity of the company was also supported by infusion of capital by the promoters.
Further, SMERA believes that the efficient management of working capital cycle by MCPL will be crucial to the maintenance of a stable liquidity profile.

Analytical approach:

SMERA has considered the standalone business and financial risk profile of MCPL to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on MCPL 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 operating 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.

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-deafult.htm
- Application of Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

About the Rated Entity –Key Financials:

Particulars	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	264.82	253.81	310.55
EBITDA	Rs. Cr.	25.31	18.78	20.38
PAT	Rs. Cr.	8.42	3.02	2.66
EBITDA Margin	(%)	9.56	7.40	6.56
PAT Margin	(%)	3.18	1.19	0.86
ROCE	(%)	9.07	7.97	8.97
Total Debt/Tangible Net Worth	Times	0.45	0.47	0.56
PBDIT/Interest	Times	2.76	1.59	1.54
Total Debt/PBDIT	Times	2.98	3.53	3.45
Gross Current Assets (Days)	Days	369	382	354

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

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
1 Mar 2017	Cash Credit	Long Term	34.00	SMERA BBB-/Stable (Assigned)
	Cash Credit	Long Term	7.00	SMERA BBB-/Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	25.00	SMERA BBB-/Stable (Assigned)
	Cash Credit	Long Term	10.45	SMERA BBB-/Stable (Assigned)
	Letter of Credit	Short Term	10.00	SMERA A3 (Assigned)
	Bank Guarantee	Short Term	25.00	SMERA A3 (Assigned)
	Bank Guarantee	Short Term	20.00	SMERA A3 (Assigned)
	Bank Guarantee	Short Term	32.50	SMERA A3 (Assigned)

*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	32.00 (reduced from Rs. 34.00 crore)	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Working Capital Demand Loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.45	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3 (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.00@ (enhanced from Rs. 25.00 crore)	SMERA A3+ (Upgraded from SMERA A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00^	SMERA A3+ (Upgraded from SMERA A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	32.50#	SMERA A3+ (Upgraded from SMERA A3)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BBB/Stable (Assigned)

@Includes sublimit of letter of credit to the extent of Rs. 2.00 crore
^Fully interchangeable with letter of credit
#Includes sublimit of letter of credit to the extent of Rs. 10.00 crore.

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

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ABOUT SMERA

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