



Press Release

Magan Construction

September 25, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (read as **SMERA B**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 10.00 crore bank facilities of Magan Construction. The outlook is '**Stable**'.

Magan Construction (MC), a Mumbai-based construction firm was established in 2009 by Mr. Jaswant B Shah. The firm undertakes civil construction work (building repair work, water retaining structure) on tender basis for government organisations including Maharashtra Housing and Area Development Authority (MHADA) and Brihanmumbai Municipal Corporation (BMC) in Mumbai.

Key Rating Drivers

Strengths

- **Experienced management**

The promoter, Mr. Jaswant B Shah has over two decades of experience in the civil construction industry.

- **Moderate working capital intensity**

The working capital operations are moderate with Gross Current Assets (GCAs) of 9 days in FY2017 (Provisional) as against 52 days in FY2016. The low debtors and inventory levels stood at 6 and 3 days respectively in FY2017. However, the firm has fully utilised its working capitals limits for the last six months ended July 2017.

Weaknesses

- **Modest scale of operations and order book position**

The operating income stood at Rs.31.75 crore in FY2017 (Provisional) compared to Rs.17.64 crore in FY2016. The operating income improved in FY2017 (Provisional) over the previous year on account of increase in execution of orders. Further, the firm has unexecuted order book of around Rs. 20 crore, which provides revenue visibility for the next one year.

- **Uneven operating margins**

The operating margins have shown uneven trends in the past due to fluctuation in raw material cost (mainly cement and steel prices). The operating margin stood at 8.10 percent in FY2017 (Provisional) compared to 13.05 percent in FY2016 and 7.96 percent in FY2015. The PAT margins stood at 4.90 percent in FY2017 (Provisional) as against 6.70 percent in FY2016 and 5.04 percent in FY2015.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by low net worth of Rs.5.33 crore as on 31 March, 2017

(Provisional). The gearing (debt-to-equity ratio) stood high at 2.39 times as on 31 March, 2017 (Provisional) compared to 4.69 times as on 31 March, 2016. The total long term debt of Rs.12.76 crore includes unsecured loans to the tune of Rs.11.24 crore from promoters and relatives as on 31 March, 2017. The interest coverage ratio (ICR) stood at 2.29 times for FY2017 (Provisional) and 1.90 times for FY2016.

Analytical Approach

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

Outlook: Stable

SMERA believes that MC's outlook will remain stable and the firm will benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues, profitability while improving working capital cycle and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue and profitability, higher than envisaged debt funded capex or working capital requirements deteriorating the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the firm registered profit after tax (PAT) of Rs.1.56 crore on operating income of Rs.31.75 crore as against net profit after tax of Rs.1.18 crore on operating income of Rs.17.64 crore in the previous year. The net worth stood at Rs.5.33 crore as on 31 March, 2017 (Provisional) as against Rs.2.28 crore as on 31 March, 2016.

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

None

Any other information

None

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4

Contacts

Analytical	Rating Desk
Vinayak Nayak	Varsha Bist

Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Sheetal Patankar Sr. Manager - Rating Operations Tel: 022-67141153 sheetal.patankar@smera.in	Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
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