

Press Release

MKC Infrastructure Limited (MKC)

09 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 132.00 Cr.
Long Term Rating	SMERA BBB/Stable (Assigned)
Short Term Rating	SMERA A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB**' (read as **SMERA triple B**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs.132.00 crore bank facilities of MKC Infrastructure Limited (MKC). The outlook is '**Stable**'.

The Gujarat based MKC (the erstwhile MKC Infrastructure, a partnership firm established in 1963 by Mr. Manjibhai K. Bambhania and Mr. Rameshbhai M. Bambhania) was converted to public limited company in Dec 2009. The company is led by Mr. Purshottambhai Bambhania and Mr. Ashokbhai M. Bambhania.

The company undertakes construction of roads, bridges, pipeline, commercial and residential complex projects for the state, central government's public sector organisations among others.

Key rating drivers

Strengths

Experienced management: The company has track record of over five decades in the construction industry. It is a family run business with the third generation having taken over the reins currently. Mr. Purshottambhai Bambhania and Mr. Ashokbhai M. Bambhania have over three decades of experience in the industry. The long track record of over five decades has helped the company establish long term relations with customers and suppliers. The company is already registered as "AA" class contractor with government of Gujarat, 'Special Road Category-I for roads, highways, bridges buildings. The company is also registered with NBCC, Kandla Port Trust & Engineering Projects (I) Ltd to name a few.

SMERA believes that MKC will continue to benefit from its experienced management and long track record of operations.

Strong revenue visibility: The company has unexecuted order-book of ~Rs.897.00 crore as on 30 November, 2017 of which orders worth ~Rs.233 crore are expected to be executed in FY2018. Further, the company has booked revenues of ~Rs.150.00 crore during April to November, 2017 (Provisional). The healthy order book provides strong revenue visibility over the near to medium term.

SMERA believes that the healthy order book and emphasis on infrastructure development by the government will support revenue growth over the near to medium term.

Moderate financial risk profile: The networth stood moderate at Rs.58.55 crore as on 31 March, 2017 as against Rs.50.02 crore as on 31 March, 2016. The gearing continued to remain at comfortable levels at 0.45 times as on 31 March, 2017 as against 0.12 times in the previous year. The total debt of Rs.26.49 crore includes working capital borrowings and long term borrowings of Rs. 7.26 crore and Rs. 19.24 crore respectively.

The TOL/TNW also stood moderately high at 2.56 times as on 31 March, 2017 as against 2.92 times as on 31 March, 2016, primarily on account of high creditors (includes creditors for subcontracts). The Interest Coverage Ratio stood comfortable at 2.49 times in FY2017.

Weaknesses

Working capital intensive operations: MKC has high Gross Current Asset (GCA) days of 189 in FY2017 (as against 176 days in FY2016) mainly on account of debtors of 145 days in FY2017 (as against 154 days in FY2016) and also due to high security deposits maintained with government authorities. Further, the debtors remain high as on 31 March every year as major portion of revenue is booked in the last quarter of the year.

The working capital requirement is supported by credit extended from creditors (around 215 days in FY2017). Apart from fund based limits, the company largely requires non fund based limits to bid and execute projects.

Considering the high working capital intensity, events like deferment of projects by the counterparty, delays in project due to pending approvals and clearances or delays in realisation of receivables from major customers will have a bearing on the working capital cycle and liquidity.

SMERA believes that efficient working capital management will be crucial to maintain a stable credit profile for MKC.

Tender based nature of operations: The company receives orders through bidding in tenders floated by State and Central Government organizations and the revenues are dependent on the company's ability to bid successfully for these tenders. Further this also exposes the company to intense competition and limits its pricing flexibility.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	200.62	261.43	222.40
EBITDA	Rs. Cr.	18.56	14.80	11.82
PAT	Rs. Cr.	8.53	10.82	9.02
EBITDA Margin	(%)	9.25	5.66	5.31
PAT Margin	(%)	4.25	4.14	4.06
ROCE	(%)	27.16	31.89	55.93
Total Debt/Tangible Net Worth	Times	0.45	0.12	0.22
PBDIT/Interest	Times	3.04	6.97	8.04
Total Debt/PBDIT	Times	1.17	0.34	0.57
Gross Current Assets (Days)	Days	189	176	93

Any other information: Not Applicable

Outlook – Stable

SMERA believes that MKC will maintain a stable outlook in the medium term on account of its experienced management coupled with healthy order book position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' if the company registers lower-than-expected net cash accruals or if the financial risk profile deteriorates due to elongated working capital cycle or large than expected debt funded capex plan.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Analytical Approach: SMERA has considered the standalone business and financial risk profiles of MKC to arrive at the rating.

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

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	NA	NA	NA	10.00#	SMERA BBB/Stable
Term Loan	NA	NA	NA	1.00	SMERA BBB/Stable
Bank Guarantee	NA	NA	NA	121.00**	SMERA A3+

#sublimit bank guarantee of Rs.3.00 crore.

**sublimit cash credit of Rs.1.25 crore.

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ABOUT SMERA

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