

Press Release

M H Khanusiya

April 01, 2019



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and re-affirmed the short term rating at '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.40.00 crore bank facilities of M H Khanusiya (MHK). The outlook is '**Stable**'.

The rating downgrade takes into account continuous deterioration of its profitability margins and capital structure. The firm's operating margins have 6.22 per cent in FY2017 to 2.96 per cent in FY2018; further, it is deterioration from 5.09 per cent in FY2016. The deterioration in the profitability is despite multi-fold growth in its revenues. The ratings, however, continue to favorably factor in the long experience of the promoters in the civil construction industry, moderate financial risk profile and moderate working capital intensive operations.

MHK was established in 1995 as a proprietorship firm and converted to a partnership firm in 2012 by Mr. Murtaja H. Khanusiya and his son, Mr. Izaz Murtajali Khanusiya (Partners). Subsequently, in 2017, Mr. Anish Murtajali Khanusiya joined the firm as a partner. The firm is a Class A contractor and undertakes civil construction work, mainly, earthwork and structural work for railways (construction of railway bridges, stations, platforms, coach yards and related fabrication work). The firm mainly caters to the Western and North Western Railways of Madhya Pradesh, Rajasthan, Maharashtra and Gujarat.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MHK to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management**

MHK is a partnership firm started by Mr. Murtajali Hanifbhai Khanusiya, who has been in this line of business for over three decades. The longstanding presence in the industry, continued execution and timely deliverables have supported in regular orders and improving revenue profile. The firm has reported revenue of Rs.163.61 crore in FY2018 as against Rs.90.22 crore in FY17. It has an unexecuted order book position of Rs.318.45 crore as of February 2019. Acuité believes that Long vintage of operations, experienced management and timely execution of the works are expected to keep the business risk profile moderate over the medium term.

- Efficient working capital management**

MHK's operations are efficiently managed as evident from Gross Current Assets (GCA) of 55 days as on March 31, 2018 as against 45 days as on March 31, 2017. This is primarily supported by efficient receivable mechanism (FY18: 32 days; FY17: 19 days) and its inventory days about a week for past three years. MHK's creditors which are about a month past three years. MHK's working capital limits is utilized at about 95 percent over the past six months ended February 2019. However, Acuité believes that with the increasing scale of operations, the working capital requirements are expected to increase and reliance on external debt is expected to increase over the medium term.

Weaknesses

- **Tender based revenues and volatile profitability**

The scale of operations of the firm is moderate within the civil construction industry marked by moderate revenues of Rs.163.61 crore in FY2018 increased from Rs.90.22 crore in FY17 with a growth of 45 percent and its revenues grew at compound annual growth rate (CAGR) of 73.25 percent for past three years. The firm has reported revenues of Rs.148.95 crore for 10MFY2019, further it has a modest unexecuted order book of about Rs.318.45 crore as on February 2019. The revenues are expected to be around Rs.170-200 crore over the medium term. Further, civil construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, tender nature of business constrains the business risk profile. Its profitability is volatile and margins have deteriorated from a high of 6.22 per cent in FY2017 to about 2.96 per cent in FY2018. Sustenance of the margins and revenue growth are key rating sensitivity factors over the medium term.

- **Below-average financial risk profile**

The financial risk profile is below average marked by high gearing (debt-to-equity), high total outside liabilities to tangible net worth (TOL/TNW), low profitability and moderate debt protection metrics. The gearing is high at 2.49 times as on March 31, 2018 as against 2.05 times in FY2017. TOL/TNW is high at 6.55 times in FY2018, deteriorated from 4.54 times in FY2017. Its net worth is modest at Rs.7.54 crore in FY2018 as against Rs.5.98 crore in FY2017. EBITDA margin declined to 2.96 percent in FY18 from 6.22 percent in FY2017, mainly due to increase in the other manufacturing costs. The firm reported cash accruals of Rs.3.48 crore in FY2018 against Rs.4.21 crore in FY2017; this lead to moderate debt protection metrics of interest coverage and net cash accruals to total debt of 3.03 and 0.19 times in FY2018 vis-à-vis 3.51 and 0.34 times in FY2017. Acuité believes that with moderate accruals to repayment obligations and moderate revenues, the financial risk profile is expected to be at similar levels over the medium term.

- **Partnership nature of business limits financial flexibility**

MHK's constitution as a partnership firm is exposed to discrete risks including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-à-vis a limited company.

Liquidity Position:

MHK has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. MHK generated cash accruals of Rs.3.48 crore during the last year 2017-18. The cash accruals of MHK is estimated to remain at around Rs.3.00-4.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.50 crore. Modest net worth base and moderate working capital management has led to high utilisation of its bank lines at about 95 percent over six months through January 2019. The current ratio of the MHK is weak at 0.68 times as on March 31, 2018. Acuité believes that the liquidity of the MHK is likely to remain moderate over the medium term on account of moderate cash accruals as against moderate repayments over the medium term.

Outlook: Stable

Acuité believes that MHK will maintain 'Stable' outlook and continue to benefit from the experience of its partners in the civil construction business. The outlook may be revised to 'Positive' in case of significant improvement its profitability margins, while sustaining the revenues and improves its capital structure. The outlook may be revised to 'Negative' in case of any stretch in its working capital management or more-than-expected withdrawal of capital by the partners leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	163.61	90.22	54.51
EBITDA	Rs. Cr.	4.84	5.61	2.78
PAT	Rs. Cr.	2.25	3.39	1.79
EBITDA Margin	(%)	2.96	6.22	5.09
PAT Margin	(%)	1.38	3.76	3.27
ROCE	(%)	17.80	34.09	45.96
Total Debt/Tangible Net Worth	Times	2.49	2.05	2.20
PBDIT/Interest	Times	3.03	3.51	3.58
Total Debt/PBDIT	Times	3.62	2.08	2.59
Gross Current Assets (Days)	Days	55	45	37

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
22-Jan-2018	Cash Credit	Long Term	15.00	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Long Term	25.00	ACUITE A4+ (Assigned)

*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	15.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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