

Press Release

Mohd Firoz Construction Co

October 11, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 8.00 crore bank facilities of MOHD FIROZ CONSTRUCTION CO. The outlook is '**Stable**'.

Chhattisgarh-based, Mohd Firoz Construction Company (MFCC) is a partnership firm established in 2002 by Late Mr. Mohd Firoz and family. Currently, the partners of the firm are Mr. Mohd Juned Raza, Mrs. Halima Bai and Mrs. Shahin Bano. The firm is engaged in undertaking civil construction projects, which primarily involves execution of road projects in Chhattisgarh through tenders.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of MFCC to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The firm was established in 2002 by Late Mr. Mohd Firoz and family members; thus, the firm has an operational track record of over two decades in the infrastructure industry. The partners of the firm have an experience of over two decades in the aforementioned line of business. The long track record of operations and experience of the management have helped the firm develop healthy relationships with its customers and suppliers. Acuite believes that MFCC will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Efficiently managed working capital operations**

The firm has efficiently managed its working capital operations marked by Gross Current Assets (GCA) of 57 days for FY2019 as against 46 days for FY2018. The debtors stood at 12 days for FY2019 as against 14 days for FY2018. The inventory level stood at 37 days for FY2019 as against 24 days for FY2018. Acuite believes that the firm's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Weaknesses

- **Average financial risk profile**

The financial risk profile of MFCC is average marked by low net worth, moderate gearing and debt protection metrics. The net worth of the firm stood low at Rs. 2.82 crore as on 31 March, 2019 as against Rs. 3.96 crore as on 31 March, 2018. The total debt of Rs. 7.92 crore as on 31 March, 2019 comprises of Rs. 0.47 crore of long term debt, Rs. 2.96 crore of short term borrowings and Rs. 4.49 crore of unsecured loans. The gearing stood at 2.81 times as on 31 March, 2019 as against 0.81 times as on 31 March, 2018. The interest coverage ratio stood at 5.99 times as on 31 March, 2019 as against 6.95 times as on 31 March, 2018. The net cash accruals of the firm stood at Rs. 2.35 crore against a debt obligation of Rs. 0.11 crore for the same period. Further, the Total outside Liabilities to Tangible Net Worth (TOL/TNW) ratio stood high at 3.54 times as on 31 March 2019, which has deteriorated from 1.34 times as on 31 March, 2018. Acuite believes that the financial risk profile of the firm is expected to remain average backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

• Small scale of operations

The firm has small scale of operations marked by operating income of Rs. 27.71 crore in FY2019 as against Rs. 24.70 crore in FY2018. Acuite believes that the ability of the firm to increase scale of operations will be a key monitorable.

• Tender based nature of business

The infrastructure industry is marked by presence of several small and large players in the industry resulting in competitive and fragmented industry. Further, tender based nature of business increases the competition level for the firm. The firm's performance is susceptible to the tender based nature of activities and intense competition among other players bidding for government contracts.

• Capital Withdrawal Risk

The firm is exposed to capital withdrawal risk on account of the partnership constitution. The partnership constitution of the firm makes it vulnerable to the risk of capital withdrawal. The same is observed by withdrawal of capital in FY2019. The partner's capital reduced to Rs. 2.82 crore as on 31 March 2019 as against Rs. 3.96 crore in the previous year. Acuite believes that the ability of the firm to maintain its capital will remain a key rating sensitivity.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs. 35.00-40.00 crore), while maintaining profitability margin of around 9.5-10 per cent over the medium term.
- Withdrawal of capital or unsecured loans.

Material Covenants

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 2.35 crore for FY2019 against Rs. 0.11 crore of maturing debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 2.50 crore to Rs. 4.00 crore during 2020-22 against no debt obligation for the same period. The firm has efficiently managed working capital operations marked by GCA days of 57 days for FY2019. The firm maintains unencumbered cash and bank balances of Rs. 0.20 crore as on 31 March, 2019. The current ratio stood low at 0.96 times as on 31 March, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes that the outlook on MFCC will remain 'Stable' over the medium term on account of its management's experience in the industry and established presence. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability, while maintaining comfortable liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity or financial risk profile on account of large working capital requirements or low net cash accruals.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	27.71	24.70	10.01
EBITDA	Rs. Cr.	2.73	2.30	1.36
PAT	Rs. Cr.	1.85	1.55	0.62
EBITDA Margin	(%)	9.86	9.32	13.57
PAT Margin	(%)	6.69	6.29	6.19
ROCE	(%)	25.96	28.06	17.07
Total Debt/Tangible Net Worth	Times	2.81	0.81	1.37
PBDIT/Interest	Times	5.99	6.95	4.08
Total Debt/PBDIT	Times	2.81	1.35	2.58
Gross Current Assets (Days)	Days	57	46	115

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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	Amount (Rs. Cr.)	Ratings/Outlook
22-Aug-2018	Cash Credit	Long Term	3.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	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	3.00	ACUITE B+ / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)

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