

**Press Release**  
**M Mahipal Reddy Constructions**  
 October 09, 2018  
**Rating Assigned**



<b>Total Bank Facilities Rated*</b>	Rs.8.50Cr.
<b>Long Term Rating</b>	ACUITE B+/Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

**Rating Rationale**

Acuité has assigned long term rating of '**ACUITE B+** (**read as ACUITE B plus**) and short-term rating of '**ACUITE A4** (**read as ACUITE A four**) to the Rs.8.50 crore bank facilities of M Mahipal Reddy Constructions (MMRC). The outlook is '**Stable**'.

MMRC is a partnership firm established in 2012. It is involved in civil construction work, primarily construction and upgrade of roads. The firm is enlisted as a Class-1 contractor with Public Works Department, and its registered office is located at Vikarabad (Telangana). The firm participates in tenders issued by PWD and other Government departments. The contracts awarded are related to upgrade of roads, mainly the national highways. The firm is promoted by Mr. Mahipal Reddy along with three of his other family members as partners.

**Analytical Approach**

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

**Key Rating Drivers:**

**Strengths:**

**Extensive experience of promoters and established relationships with Telangana Govt:**

MMRC is a partnership concern promoted by Mr. M. Mahipal Reddy and his family members in 2012. The promoters have been in this line of business for over two decades. MMRC has four key work orders valued to Rs.86.89 crore, of which unexecuted position as on March 31, 2018 (Provisional) is about Rs.48.69 crore. Apart from these works, the firm has participated in new work of about Rs.15.00 crore. Unexecuted order book position gives adequate revenue visibility of about Rs.25.0 – 30.0 crore over the medium term.

**Above average financial risk profile**

MMRC's financial profile is marked by healthy capital structure and debt protection metrics. Gearing (debt-to-equity) is healthy at below 0.80 times for the last three years ended March 31, 2018 (Provisional); it is owing to moderate accretions to reserves, efficient working capital management and less reliance on debt. Further, total outside liabilities to total net worth (TOL/TNW) is healthy at 0.59 times (Provisional) as on March 31, 2018. The debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio are healthy at 0.63 times and 6.59 times in FY18 (Provisional) vis-à-vis 4.67 times and 0.42 times in FY2017. Acuité believes that the financial risk profile continues to be healthy supported by moderate cash accruals in the range of Rs.2.4 – 3.5 crore over the medium term against its repayment obligations of about Rs.0.50 – 0.70 crore per annum and regular modest capex.

### **Efficient working capital management**

MMRC'S working capital is efficiently managed by Gross Current Asset (GCA) days of about 70 in FY2018 (Provisional); majorly attributed to raising the bill at regular intervals and realisations within a short period of two weeks. The efficient working capital management has supported in moderate bank line utilisation at about 82 percent over six months through August 31, 2018. Acuité believes that operations continue to be managed efficiently at these levels over the medium term.

### **Weaknesses:**

#### **Modest scale of operations along with fluctuating total operating income**

The scale of operations is modest marked by total operating income of Rs.22.49 crore in FY2018 (Provisional). Furthermore, the total operating income of the firm is seen fluctuating during the past 3-year period. The revenue decreased from Rs.29.03 crore in FY2016 to Rs.20.50 crore in FY2017. Further, domestic civil construction industry remains highly competitive with numerous contractors, leading to high competition that restricts the firm's pricing flexibility besides tender based system.

#### **Geographical concentration in revenue:**

The outstanding order book is primarily concentrated in and around Vikarabad District of Telangana and the work is concentrated towards one segment – road projects. Geographical concentration and competitive bidding nature of works constrain the growth in the revenue profile, though to some extent, the same is mitigated by longstanding presence in the industry.

#### **Outlook: Stable**

Acuité believes that MMRC 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 higher-than-expected revenues while maintaining the profitability. The outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

### **About the Rated Entity - Key Financials**

	Unit	FY18 (Prov)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.49	20.50	29.03
EBITDA	Rs. Cr.	3.37	2.43	2.64
PAT	Rs. Cr.	2.20	1.24	1.76
EBITDA Margin	(%)	15.00	11.86	9.11
PAT Margin	(%)	9.76	6.03	6.05
ROCE	(%)	23.40	17.42	25.90
Total Debt/Tangible Net Worth	Times	0.56	0.75	0.79
PBDIT/Interest	Times	6.59	4.67	6.40
Total Debt/PBDIT	Times	1.34	1.85	1.61
Gross Current Assets (Days)	Days	70	46	41

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

None

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-14.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE B+/ Stable (Assigned)
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE B+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.10	ACUITE A4 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.90	ACUITE A4 (Assigned)

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**About Acuité Ratings & Research:**

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