

Press Release

MKS Constro Venture Private Limited

October 31, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 55.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 55.00 crore bank facilities of MKS Constro Venture Private Limited. The outlook is '**Stable**'.

Incorporated in 2011, MKS Constro Venture Private Limited (MKS) is engaged in the business of civil construction and primarily undertakes irrigation works and road construction works in Telangana and Maharashtra. The company is promoted by Mr. Mitesh Bhangdiya. The promoter started the business in the year 1993 as a proprietorship concern, and reconstituted as a private limited company in the year 2011. The company is executing irrigation and other infrastructure projects majorly for Vidarbha Irrigation Development Corporation (VIDC, Nagpur), Public Works Department (PWD, Maharashtra), Megha Engineering & Infrastructures Limited (MEIL) Larsen & Toubro Limited (L&T) among others.

Analytical Approach

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

Key Rating Drivers

Strengths

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

MKS has been engaged in infrastructure development works for more than three decades, with established track record in irrigation and road project works. It has executed several road projects in the State of Maharashtra. Mr. Mitesh Bhangdiya, founder promoter is supported by well-qualified and experienced team of professionals to execute the projects. The timely execution of the projects has helped the company in improving its market presence, besides continued business from VIDC, PWD - Maharashtra on irrigation and infrastructure works; further, in year 2017 MKS diversified into State of Telangana for undertaking irrigation works of Kaleshwaram project under sub-contract works from MEIL, L&T, Navayuga Engineering Company Ltd (NECL) among others. As of September 30, 2018 the company has an unexecuted order book position of about Rs.1052.0 crores which gives adequate revenue visibility over the medium term. Acuité believes that MKS's longstanding presence, healthy order book, geographically diversified revenue profile is expected to support in improvement of its business risk profile over the medium term.

- **Continued growth in operating income supported by healthy order book position and Technical prowess**

MKS has strong presence in irrigation projects over the past three decades in Vidarbha region from the works of VIDC; to expand its presence and mitigate the revenue concentration, MKS diversified into Telangana region in the year 2017, which helped in improving its revenues in FY2017 and 2018. MKS's revenues have improved at a moderate compound annual growth rate (CAGR) of about 25 per cent over the past three years through FY2018 at Rs.184.35 crore in FY2018. As of August 31, 2018, MKS has eighteen projects with unexecuted portion of Rs.1052 crores which is 4x of its FY2018 revenues; of the order book, about Rs.290.0 crores is from MEIL, Rs.130.0 crores from NECL, Rs.85.0 crores from L&T, and about Rs.520.0 crores from PWD among others for execution by 2020 and 2021. Acuité believes that healthy order book, and well-funded projects are expected to support MKS in

reporting healthy growth in the operating revenues over the medium term.

- **Comfortable financial risk profile**

MKS's financial risk profile is marked by moderate net worth, gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOLTNW) and healthy debt protection metrics. MKS's net worth is moderate at Rs.56.81 crore as on March 31, 2018 as compared to Rs.51.17 crore as on March 31, 2017, owing to moderate accretion to reserves. Acuité believes that with healthy revenue growth expected of about 20 per cent over the medium term is expected to support improvement of net worth. Gearing levels are healthy at 0.49 times in FY2018 as compared to 0.46 times in FY2017. TOL/TNW is moderate at 1.74 times in FY2018 vis-à-vis 2.10 times in FY2017; moderate partly attributed to passing of works on sub-contract basis. Low debt levels have resulted in comfortable interest coverage of 4.58 times in FY2018; its net cash accruals to total debt are moderate historically at above 0.25 times. With moderate cash accruals, no significant debt-funded capex plans, Acuité believes that the financial risk profile is expected to be at similar levels over the medium term partly constrained by incremental working capital requirement for the increasing scale of operations.

Weaknesses

- **Intense working capital intensive operations**

MKS's operations are moderately working capital intensive with gross current asset (GCA) days of about 258 in FY2018. The company raises bill on milestone basis, and receives payment within a period of 45 days from the date of approval of the bill. However, debtor's days were high at 133 in FY2018 due to higher billing in last quarter of the year, partly owing to Government projects. However, the working capital requirement is partly mitigated by support from creditors, and sub-contracting to others; resulted in moderate utilisation of its working capital limits at about 60 per cent for the past six months through July 31, 2018. Acuité believes that being Government projects wherein execution is more skewed towards last quarter, the operations continue to be working capital intensive.

- **Competitive and fragmented industry**

MKS is into road projects and irrigation projects, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the infrastructure segment; further, it's dependent on State Govt's thrust on irrigation and other infrastructure works. Acuité believes that MKS's revenues and margins are susceptible to the competitive bidding scenario, besides its geographical concentration of its projects to the States of Maharashtra and Telangana.

- **Regional and Client concentration risk**

The company in FY2018 generated around 89.74 per cent of the revenue from MEIL and that too from a single project of Telangana State; resulted in high client and regional concentration risk. However, its partly mitigated in terms of new works that it has secured from PWD - Maharashtra of about Rs.520.0 crores for execution over the next 2-3 years. Acuité believes that any slowdown in work execution due to regulatory or political challenges is a key rating sensitivity factor considering high revenue concentration from two projects of Telangana and Maharashtra.

Outlook: Stable

Acuité believes that MKS will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy revenue visibility. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant investments in JV's or advances 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.	184.35	135.46	39.47
EBITDA	Rs. Cr.	14.11	7.66	5.05
PAT	Rs. Cr.	5.64	1.88	2.68
EBITDA Margin	(%)	7.65	5.66	12.80
PAT Margin	(%)	3.06	1.39	6.80

ROCE	(%)	18.19	10.23	17.93
Total Debt/Tangible Net Worth	Times	0.49	0.46	0.41
PBDIT/Interest	Times	4.58	1.95	2.09
Total Debt/PBDIT	Times	1.84	2.84	2.70
Gross Current Assets (Days)	Days	258	498	1092

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)

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	20.00	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3

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About Acuité Ratings & Research:

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