Press Release

M Venkata Rao Infra Projects Private Limited

D-U-N-S® Number: 67-619-6365

May 09, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 392.50 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.392.50 crore bank facilities of M Venkata Rao Infra Projects Private Limited (MVR). The outlook is **'Stable'**.

Incorporated in 2004, MVR is engaged in the business of civil construction work across the states of Andhra Pradesh, Telangana, Karnataka and Goa. The company is promoted by Mr. M. Venkata Rao and based out of Visakhapatnam, Andhra Pradesh. The promoter started the business in 1964 as a proprietorship concern as 'M. Venkata Rao'; and reconstituted as a private limited company in 2004 along with his family members as shareholders and Directors, by takeover of the business of 'M. Venkata Rao'. The Company undertakes infrastructure projects for National Highway Authority of India (NHAI), Goa State Infrastructure Development Corporation Limited (GSIDC), Amaravati Development Corporation Limited (ADCL), Greater Hyderabad Municipal Corporation (GHMC), Bruhath Bangalore Mahanagara Palike (BBMP), The Ministry of Road Transport & Highways (MORTH) and other PWD works of Telangana, Andhra Pradesh, GOA and Karnataka states, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

The promoter has more than five decades of experience in civil construction industry. The promoter is further supported by his son, Mr. Muppana Rama Krishna Prasada Rao (Managing Director) who has nearly three decades of experience; and his grandsons (third generation team), Mr. Muppana Venkat and Mr. Muppana Vasprad Prateek (Sons of MD) along with other professional team. Over a period, MVR diversified into various areas of construction of flyovers, Airports, bridges, road projects, infrastructure works for various Govt bodies among others. Further, it spread its wings across Andhra Pradesh, Telangana, Karnataka and Union Territory - Goa. The timely execution of the projects has helped the company in improving its market presence, besides continued business from NHAI, GSIDC, ADCL, MORTH and GHMC and other principal contractors over a period. Acuité believes that MVR continues to enjoy the benefit of its geographically diversified revenue profile, and strong counterparties over the medium term.

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

MVR has its presence in national and state highways funded by NHAI, GSIDC, ADCL, MORTH, PWD department. This helped MVR in reporting a healthy compound annual growth rate (CAGR) of about 29.50 percent over the three years through FY2018 with revenues of Rs.547.97 crore. For 9MFY2019, MVR has reported revenues of about Rs.580 crores, and is expecting revenues of about Rs.750-780 crores. As of December 31, 2018, MVR has an unexecuted order book of Rs.3164.82 crore which is executable over the next 2 - 3 years. In addition to this, it has Rs.460 crore worth of projects in L1 stage which gives adequate revenue visibility of over 4x of its FY2019 (est) revenues. Majority of its projects are on tendering and direct contract basis and also funded projects. Further, over the past three years, MVR equipped itself with strong line of equipment with investment of nearly Rs.67.00 crore on road construction and for other infra works execution. Acuité believes that healthy unexecuted order book, technical prowess and well-funded projects are expected to support MVR in improving its business risk profile further over the medium term.

• **Healthy financial risk profile**
MVR's financial risk profile is marked by healthy net worth, gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOLTNW) and debt protection metrics. MVR's net worth is healthy at Rs.142.91 crore as on March 31, 2018 as compared to Rs.117.85 crore as on March 31, 2017. Gearing is healthy at 0.51 times as on March 31, 2018 improved from 0.64 times in FY2017. TOL/TNW is moderate at 1.69 times in FY2018 vis-à-vis 1.39 times in FY2017; attributed to high mobilisation advances received from the principals for the new works taken up. Debt levels coupled with interest bearing mobilisation advances have resulted in moderate interest coverage ratio of 3.39 times vis- à-vis 4.64 times in FY2017. Its net cash accruals to total debt are healthy at 0.50 times. With healthy cash accruals expected in the range of Rs.35 - 45 crore over the medium term, against repayment obligations of about Rs.8-10 crore and moderation in capex to about Rs.5-10 crore per annum are expected to support in improving its debt protection metrics and financial risk profile over the medium term.

Weaknesses

• **Competitive and fragmented industry, and hurdles in site clearances**
MVR is into mid-size projects wherein the competition is moderate vis-à-vis high value or low value projects. However, the risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicality in the infra works and private investment in case of Non-Govt projects. Also, site clearance issues of evacuation, movement of public infrastructure (electrical, telephone, water pipelines among others) poses risk of delay in project execution and thus impacting the revenues. Also, this leads to volatile profitability; this is besides tender nature of business. Acuité believes that MVR's revenues and margins are susceptible to the competitive bidding scenario, besides the geographical concentration of its projects to the Goa territory which is almost 80 per cent of its revenues in FY2016, though it has reduced to about 60 per cent in FY2018.

• **Moderate working capital management**
MVR's working capital operations are moderate as evident from Gross Current Assets (GCA) days of about 184 days in FY2018 (FY17: 152 Days; FY16: 244). Although, risks associated with delayed payment exists in the industry, however with its funded projects and strong counterparty principals of GSIDC, NHAI funded by MORTH, ADCL and others, the bill realisation happens within 45-60 days; though year end position tends to be high at about 90 days, due to high execution volume in the last quarter. The company raises the bill majorly on monthly basis; which results in low inventory and work- in-progress. Timely realisation of bills, and monthly billing cycle lead to moderate reliance on bank lines with average utilisation of about 64 per cent over the past six months ended Jan 2019; the same is also partly owing to mobilisation advances provision on majority of its works. As the size of the revenues growing multi-fold, sustenance of the operations and cash accruals to support the working capital management, retention money and security deposit are critical wherever bank guarantees are not allowed to replace; though it gets adequate support from the principals in terms of Mobilisation advance and timely payment.

Liquidity Position:

MVR's liquidity position is comfortable marked by healthy net cash accruals to its maturing debt obligations. MVR generated cash accruals of Rs.36.31-16.85 crore during the last three years through 2017-18. MVR's cash accruals are estimated to remain around Rs.35-45 crore during 2019-21, while its repayment obligations are estimated to be around Rs.8-10 crore with modest regular capex of about Rs.5-10 crore; gives adequate comfort for the incremental working capital requirements. MVR's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 184 in FY 2018.

Healthy accruals and Mobilisation advance support from principal contractors led to moderate reliance on working capital borrowings; its cash credit limits were moderately utilised at about 64 percent during the last six months period ended January 2019. MVR's unencumbered cash and bank balances are Rs.8.62 crore as on March 31, 2018. The current ratio of MVR is moderate at 1.23 times as on March 31, 2018. Acuité believes that liquidity profile of MVR continues to be comfortable on account of healthy cash accrual and no major repayments and capex plans over the medium term.

Outlook: Stable

Acuité believes that MVR will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of sustenance of the revenues and profitability margins while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt- funded capital expenditure or any significant advances to any group entities resulting in 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.	547.97	472.15	326.75
EBITDA	Rs. Cr.	68.59	44.79	36.15
PAT	Rs. Cr.	25.06	24.83	10.17
EBITDA Margin	(%)	12.52	9.49	11.06
PAT Margin	(%)	4.57	5.26	3.11
ROCE	(%)	29.71	26.04	37.81
Total Debt/Tangible Net Worth	Times	0.51	0.64	0.84
PBDIT/Interest	Times	3.39	4.64	2.42
Total Debt/PBDIT	Times	1.02	1.36	2.03
Gross Current Assets (Days)	Days	184	152	244

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	45.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	205.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2

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