

Press Release

Megha Projects

November 23, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.80 Cr.
Long Term Rating	ACUITE B+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 10.80 crore bank facilities of Megha Projects. The outlook is '**Stable**'.

Megha Projects is a Bangalore based partnership firm established in February 2019. The firm established to manufacture 'Aerated Autoclave Concrete (AAC) blocks. The firm is setting up a plant with a capacity of 15 lakh meters per annum. The firm is promoted by Mr. Dharmesha H V, Ms. Nalini and Mr. Venu.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Megha Projects for arriving at the rating.

Key Rating Drivers

Strengths

- Experienced promoters**
 The main promoters of the Megha Projects are Mr. Dharmesha H V and Mr. Venu Potta who possess over a decade experience in the real estate and agricultural sector. Mr. Dharmesha H V is running a proprietorship firm under his name, which is into the construction of residential flats from the past 12 years. Mr. Venu Potta is running a partnership firm namely 'Kingston Properties' which is engaged in the construction of residential flats from the last decade. With the given experience, the promoters have planned to set up Aerated Autoclave Concrete (AAC) blocks manufacturing unit in Bangalore with the total project cost of Rs.16.80 Cr which will be funded through term loan of Rs.10.80 crore and remaining through promoter's capital. The operations are scheduled to commence from January, 2021. Acuité believes that the promoter's industry experience is expected to benefit the firm's operations going forward.

Weaknesses

- Project execution risk**
 The firm is setting up a manufacturing unit in Bangalore at a total project cost of Rs.16.80 Cr; which is funded through promoters' capital of Rs.6 Cr and bank loan of Rs.10.80 Cr. The project was initially expected to be completed by May 2020 and commercial operations would begin by June, 2020. However, due to the outbreak of COVID-19 and subsequent lockdown in the nation has caused a shortage of labour and materials due to which there were time and cost overrun. Currently, the project is under construction and is expected to be completed by January, 2021. The cost overrun is borne by the promoters. Acuité believes that any significant delay in project execution due to delay funding or any significant delay in stabilization of operations is expected to constrain the business and financial risk profile over the near to medium term and will remain a key rating sensitivity factor.
- Competitive nature of business also exposed to industry risks**
 This business is fairly competitive with multiple players coupled with low entry barriers resulting in intense competition from both the organized as well as unorganized players. Moreover, the manufactured product, AAC blocks are majorly used in the construction business and real estate business which are going through a downturn currently due to overall economic slowdown coupled with the adverse situation caused due to the pandemic. Thus, the fall in demand in the said industry will negatively impact

businesses into construction materials having a bearing on the overall operations and profitability.

Rating Sensitivities

1. Timely completion of the on-going capital expenditure without any further time or cost overrun
2. Expected growth in the operations, post commencement of operations, with sustained improvement in the profitability margins
3. Deterioration in the capital structure leading to any negative impact on the liquidity profile

Liquidity: Adequate

The liquidity position of the firm is stretched reflected from negative cash accruals of Rs.0.22 Cr in FY2020. The firm is still under project level with the on-going construction of AAC manufacturing unit that is yet to commence the operations and the same is expected to start by January, 2021. The cash accruals are expected to remain negative, in the range of Rs.0.20 Cr to Rs.0.40 Cr, for the near to medium term until the operations stabilize. However, debt obligations in the same period is expected to remain in the range of Rs.0.20 Cr to Rs.0.96 Cr creating stress on liquidity. The repayment obligations will, however, be taken care of by timely infusion of funds made by promoters. The firm reported unencumbered cash and bank balances of Rs.0.09 Cr as on March 31, 2020. Acuite believes that the liquidity profile is expected to remain stretched in the medium term owing to project level status of the firm with operations yet to commence.

Outlook: Stable

Acuite believes that outlook on Megha Projects will remain 'Stable' over the medium term on account of the experience of the promoters. The outlook may be revised to 'Positive' in case of successful completion of the project in a stipulated time and ability of the firm to register higher than expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any further cost or time overrun in completion of the project leading to the deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.22)	0.00
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	2.89	0.00
PBDIT/Interest	Times	(0.32)	0.00

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Term Loans	15-Jul-17	12.25%	31-Mar-28	10.80	ACUITE B+/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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