

## Press Release

MMR Construction Company Private Limited

April 01, 2021

Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 30.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A4+ (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 30.00 cr. bank facilities of MMR Construction Company Private Limited (MCCPL). The outlook is '**Stable**'.

#### Rationale for rating assigned

The ratings assigned derive comfort from extensive experience of promoters spanning over four decades in construction related activities, stable business risk profile with comfortable order book for EPC contracts for electrical works with moderate bank limit utilization. The rating assigned also factors in healthy financial risk profile of the company marked by low gearing (including quasi equity) of 0.30 times as on 31<sup>st</sup> March 2020, comfortable debt-coverage indicators marked by interest coverage of 1.99 times and debt service coverage ratio 1.27 times in FY2020. The company has moderate net worth of Rs. 31.95 crore as on 31<sup>st</sup> March 2020 as a result of moderate profitability and healthy infusion of funds by the promoters. In addition to this, the company is planning to undertake conversion of certain liabilities outstanding from related parties to preference share capital in the current year, which lends further comfort on financial risk profile of the company. On the contrary, ratings are constrained on account of working capital intensive nature of operations due to high value of unsold real-estate inventory and intense competition in the industry. Going forward, the ability of the company to further sustain its scale of operations along with the effective management of its working capital cycle and financial risk profile would be the key rating sensitivities.

#### About the company

MMR Construction Company Private Limited (MCCPL) is a Noida based privately held company incorporated in 2008 by Mr. Mahipal Singh Raghav who possess more than four decades of experience in construction activities. MCCPL is engaged into execution of civil and electrical contracts for government entities and trading of construction material. It is also engaged in leasing of properties and construction of residential houses & commercial towers on contractual basis since 2008. Later in the year 2015, the company shifted its focus towards civil and electrical contracts.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### • Experienced management & diversified portfolio

Incorporated in 2008 by Mr. Mahipal Singh Raghav, Noida based MCCPL was initially engaged in the construction of residential properties, commercial tower and real estate activities. Subsequently, MCCPL have diversified their business mix by undertaking EPC contracts for government entities and trading construction material. Currently, the company is managed by Mr. Mahipal Singh Raghav along with his two sons Mr. Rahul Raghav and Mr. Mohit Singh Raghav. Also, the top management is ably supported by well experienced technical team.

Acuite believes that the company will benefit from the experience of the promoters in the aforementioned industry in developing healthy relationships with its customers and suppliers.

#### • **Healthy financial risk profile**

The financial risk profile of MCCPL is healthy marked by moderate net worth, comfortable gearing and debt protection metrics.

The company's net worth stood at Rs. 31.95 crore as on 31st March 2020 as against Rs. 23.67 crore as on 31st March 2019. The company follows conservative financial policy which is reflected by company's gearing levels (debt-to-equity (inclusive of quasi equity)) of 0.30 times as on March 31, 2020 as against 0.46 times as on March 31, 2019 & total outside liabilities to total net worth (TOL/TNW) of 2.96 times as on FY2020 vis-à-vis 4.09 times as on FY2019.

Moderate profitability has led to comfortable interest coverage ratio of 1.99 times for FY2020 as against 1.57 times in FY2019. Further, the company generated cash accruals of Rs. 1.70 crore for FY2020 as against Rs. 0.45 crore of repayment obligations for the same period. Also, the promoters have proposed to convert liabilities up to Rs. 35.50 crore to capital in the current financial year which will further improve the leverage levels of the company.

Acuite believes that the financial risk profile of MCCPL is expected to further improve on account of improvement in leverage metrics and in absence of any debt-funded capex over the medium term.

#### **Weaknesses**

##### • **Intensive working capital operations due to high receivables and inventory levels**

The company has intensive working capital operations marked by Gross Current Assets days of 1309 days in FY2020 improved from 1481 days in FY2019. The improvement is marked by decrease in debtors' collection to 283 days as on 31 March 2020 as against 320 days in the previous year. Debtors' day stood high as company has significant amount of debtors from which recovery is pending for over 5 years. The management of the company is expecting to recover these amounts shortly. However, inventory days stood high at 657 days as on 31 March 2020 as against 583 days in previous year as the company has significant number of unsold residential plots and kothis which amounts to ~81 per cent of the value of total inventory. The current ratio of the company stood at 2.30 times as on 31st March 2020.

Acuite believes that working capital operations of the company will continue to remain intensive due to high value of unsold real-estate inventory and high debtors outstanding.

#### **Rating Sensitivities**

- Significant growth in the scale of operations
- Significant improvement in profitability metrics leading to overall improvement in financial risk profile.
- Further elongation of the working capital cycle leading to deterioration in liquidity position.

#### **Material Covenants**

None

#### **Liquidity position: Adequate**

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 1.70 crore for FY2020 as against Rs. 0.54 crore of repayment obligations for the same period. MCCPL's working capital operations are intensive marked by gross current asset (GCA) of 1,309 days in FY2020. The company has unencumbered cash and bank balances of only Rs. 0.37 crore as on 31st March 2020. Further, the utilization of working capital limits stood low, thereby resulting in sufficient net cash accruals & limits available to utilize more funds if required to support incremental requirements. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals as against maturing debt obligations over the same period.

#### **Outlook: Stable**

Acuite believes that MCCPL will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or further elongation in working capital cycle.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	33.42	28.03
PAT	Rs. Cr.	1.47	0.96
PAT Margin	(%)	4.40	3.44
Total Debt/Tangible Net Worth	Times	0.30	0.46
PBDIT/Interest	Times	1.99	1.57

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

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

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History (Up to 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. Crore)	Ratings/Outlook
Term loans	20-12-2016	12.00	30-03-2027	2.24	ACUITE BB+/Stable (Assigned)
Term loans	15-07-2020	Not Available	10-06-2024	0.41	ACUITE BB+/Stable (Assigned)
Term loans	31-12-2014	13.75	10-02-2032	3.70	ACUITE BB+/Stable (Assigned)
Term loans	27-02-2018	10.75	10-11-2033	1.43	ACUITE BB+/Stable (Assigned)
Term loans	26-12-2014	14.00	30-01-2026	2.00	ACUITE BB+/Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Assigned)
Overdraft	Not Available	Not Available	Not Available	0.27	ACUITE BB+/Stable (Assigned)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.95	ACUITE BB+/Stable (Assigned)

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### About Acuité Ratings & Research:

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