



Press Release
M R G R Constructions
July 02, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	70.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 100.00 Cr. bank facilities of M R G R Constructions. The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating assigned reflects the extensive experience of the management along with their established track record of operations for nearly 12 years in this line of business. Further, the rating considers moderation recorded in operating revenue in FY2023 due to some of its irrigation projects being put on hold by the government, however recovery is achieved in FY2024(Prov) up to some extent on the back of road construction projects. The revenue stood at Rs.153.07 Cr. in FY2024(Prov) against Rs.85.89 Cr. in FY2023 and Rs.202.89 Cr. in FY2022. Further, the current order book position of the firm stood at Rs. 1043.22 crore as of June 2024 (6.82 times of its operating income in FY2024), which provides revenue visibility over the medium term. Furthermore, the rating factors in the moderate financial risk profile of the business as well as the firm's diversification of its business risk profile by entering road construction from FY2024 onwards.

However, the above-mentioned strengths are partly offset by the working capital-intensive nature of operations and highly competitive industry with a tender-based nature of operations.

About the Company

M R G R Constructions (MRGR) is a registered partnership firm Incorporation in 2011, having its registered office at Kadapa, Andhra Pradesh, and administrative office at Kukatpally, Hyderabad. The firm is engaged in the EPC and involved in the Irrigation, Canal, Civil, Electrical projects in the state Telangana and Andhra Pradesh. Mr. Mutyala Rama Govinda Reddy is the founder of MRGR. The other partners of the company are Mr. Muthyala Sreenivasula Reddy (Managing partner), Mr. Muthyala Chandra Mohan Reddy, Mrs. Muthyala Sowjanya, and Mrs. Muthyala Jyoshna Reddy.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of M R G R Constructions to arrive at the rating.

Key Rating Drivers

Strengths

Experienced Management and established track record of operations

M R G R Constructions has been in existence for more than a decade, with a speciality in the business of undertaking civil, irrigation, and canal works as a government contractor. Sri M. Sreenivasula Reddy is a managing partner in the firm and has more than 10 years of experience in the work of civil contracts. Mr. Chandra Mohan Reddy is a co-promoter and partner in MRGR Constructions, responsible for logistics support and material management. Along with this, the founder of the firm, Mr. Rama Govinda Reddy, acts as a partner and has more than three decades of experience. The firm has been able to establish a long-standing relationship with its suppliers and various government bodies. Acuite believes that the promoter's extensive industry experience and established relationship with its principal contractors and suppliers may aid the firm's business risk profile over the medium term.

Moderation in revenue albeit healthy orderbook

The company's revenue decreased to Rs. 85.89 crore in FY2023 from Rs. 202.89 crore in FY2022. This decline was attributed to delays in irrigation projects, as the government was required to maintain the continuous flow of water through canals, resulting in the canal widening project being put on hold. The project is expected to be executed by FY26-27. However, the company reported revenue of Rs. 153.07 crore in FY2024 (provisional). The increase in revenue in FY24 is due to the execution of road construction contracts. The company diversified its business risk profile by entering the road construction sector from FY2024 onwards. The operating profit margin stood at 16.25% in FY24 (provisional), compared to 18.63% in FY23 and 14.37% in FY22. The profit after tax (PAT) margins stood at 6.35% in FY24 (provisional), compared to 5.11% in FY23 and 6.19% in FY22. As of June 2024, the company's order book position stood at Rs. 1043.22 crore, which is 6.82 times its operating income in FY2024. Acuite believes that the company's revenue is likely to continue increasing, supported by a healthy order book position.

Moderate Financial Risk Profile

The financial risk profile of the firm is moderate marked by moderate net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the firm stood at Rs. 61.67 crore as on March 31, 2024(Prov.) against Rs. 53.58 crore as on March 31, 2023 and Rs. 52.68 crore on March 31, 2022. There were some withdrawals from the capital in FY2023 and FY2024. The total debt of the firm stood at Rs. 65.18 crore as on March 31, 2024(Prov.) as against Rs. 43.27 crore as on March 31, 2023 and Rs. 49.16 crore on March 31, 2022. The debt profile of the firm comprises of Rs. 26.26 crore of long-term loans and Rs. 38.92 crore of short term loans (bank overdraft) as on March 31, 2024. The capital structure of the entity remains comfortable with the gearing of 1.06 times in FY24(Prov.) as against 0.81 times in FY23 (and 0.93 times in FY22). The TOL/TNW improved to 1.70 times in FY24(Prov.) as against 2.28 in FY23 and 2.63 times in FY22. The debt protection metric, of debt service coverage ratio, stood comfortable at 1.57 times in FY24(Prov.) as against 0.79 times in FY23 and 4.28 times in FY22 and interest service coverage ratio stood at 5.13 times in FY24(Prov.) as compared to 2.76 times in FY23 and 5.54 times in FY22.

Going ahead, financial risk profile of the firm is expected to remain moderate, however any significant withdrawal of capital by partners may impact the capital structure of the firm.

Weaknesses

Intensive nature of working capital operation

The working capital operations are intensive in nature marked by GCA of 225 days in FY24(Prov.) as against 561 days and 255 days during FY23 and FY22 respectively. The inventory days increased to 47 days in FY24(Prov.) as compared to 7 days in FY23 and 3 days in FY22. Further, the debtor days stood at around 59 days in FY24(Prov.) against 321 days in FY23 and 146 days in FY22. However, the reliance on working capital limits stood moderate at ~66% over the past 6 months ending May 2024. Going ahead, working capital operations are expected to remain in similar range considering the nature of business.

Tender based nature of operations and Competitive and fragmented industry

Revenue and profitability in this line of business depend entirely on the ability to win tenders. Entities in this segment face intense competition, which requires them to bid aggressively to procure contracts. As a result, operating margins are restricted to moderate levels. Additionally, given the cyclical nature inherent in the construction industry, maintaining profitability through operational efficiency becomes critical. Acuité believes that the firm's business and financial profiles may be adversely impacted due to the presence of stiff competition and the inherent risk associated with tender-based operations.

Rating Sensitivities

- Improvement in revenue and profitability.
- Significant elongation in working capital cycle leading to stretch in liquidity.

Liquidity Position Adequate

The liquidity position of the firm remains adequate. The firm generated net cash accruals of Rs. 17.28 crore in FY 24(Prov) against a repayment obligation of Rs.9.00 Cr. The company had a cash balance of Rs. 0.39 crore as on March 31, 2024(Prov.). The current ratio stood at 1.08 times in FY24(Prov.) as against 1.09 times in FY23 and 1.10 times in FY22. Besides, the company has a buffer in the working capital limits supporting the liquidity position with average utilization of 66% during the 06 months ending May 24.

Outlook: Stable

Acuité believes that M R G R Constructions will continue to remain 'stable' over the medium term due to the firm's long-standing experience in the construction industry and healthy order book position. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in the company's operating income or profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in the event of lower-than-expected growth in revenue and profitability and/or weakening of capital structure and debt protection metrics.

Other Factors affecting Rating None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	153.07	85.59
PAT	Rs. Cr.	9.73	4.38
PAT Margin	(%)	6.35	5.11
Total Debt/Tangible Net Worth	Times	1.06	0.81
PBDIT/Interest	Times	5.13	2.76

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Apr 2023	Secured Overdraft	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Proposed Secured Overdraft	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
	Bank Guarantee (BLR)	Short Term	25.00	ACUITE A3 (Assigned)
	Bank Guarantee (BLR)	Short Term	30.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A3 Reaffirmed
Karnataka Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	35.00	ACUITE A3 Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Bank Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A3 Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BBB- Stable Reaffirmed
Karnataka Bank Ltd	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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