Madhav Infra Projects Limited

September 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	104.85 (Reduced from 112.82)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term/ Short Term Bank Facilities	355.92	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed; Outlook revised from Negative
Long Term Bank Facilities*	-	-	Withdrawn
Short Term Bank Facilities*	-	-	Withdrawn
Total Bank Facilities	**460.77 (₹ Four Hundred Sixty Crore and Seventy-Seven Lakh Only)**		

*Details of facilities in Annexure-1. *Withdrawn on the basis of no due certificate received from the lender.*

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Madhav Infra Projects Limited (MIPL) continue to derive strength from its extensively experienced promoter group in infrastructure industry with demonstrated track record of supporting the operations of the company, segmentally diversified orderbook from strong counterparties, and presence of price escalation clause in majority of its road and bridge construction projects.

The ratings also take cognizance of growth in MIPL's scale of operations along with improvement in profitability during FY22 (refers to the period from April 1 to March 31) on back of scaling-up of Engineering, procurement, and construction (EPC) segment and reduction in debt levels (albeit lower than envisaged) through sale of assets as well as other recoveries during September, 2022.

The above rating strengths, however, are partially offset by high working capital intensive operations resulting in leveraged capital structure, stretched liquidity and modest debt coverage indicators, and its presence in an intensely competitive and fragmented construction industry.

The ratings also factor geographical concentration of its moderate orderbook, with increase in solar EPC contracts which are awarded on fixed price basis and delay in merger of its subsidiary and materialisation of land parcel sale transaction, which was envisaged to be completed by the end of FY22.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in its scale of operations while maintaining its prevailing PBILDT margin on a sustained basis.
- Efficient working capital management resulting in reduction in overall gearing below 1.00x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in its scale of operations owing and/or reduction in PBILDT margin on below 10% a sustained basis.
- Additional exposure to its group companies, large-size debt funded capex or elongated working capital cycle weakening the financial risk profile and liquidity.

Outlook: Stable

The revision in the outlook assigned to the long-term rating of MIPL from 'Negative' to 'Stable' considers growth in its scale of operations along with improvement in profitability and gross cash accruals (GCA).

Detailed description of the key rating drivers

Key rating strengths

Growth in its scale of operations with improvement in profitability during FY22: Despite operations being partly hampered during Q1FY22 on account of second wave of Covid, MIPL's TOI grew by around 47% y-o-y to Rs.387 crore in FY22 (Rs.263 crore in FY21) due to increase in revenue from EPC segment. The revenue from EPC constituted around 96% of TOI in FY22 (89% of TOI in FY21). Income from solar power assets constitutes an insignificant share due to sale of 14.40 MW Uttarakhand based solar power plant in FY22.

Despite dip in high-margin solar power income business, MIPL's PBILDT margin improved by 265 bps y-o-y to 12.88% (10.23% in FY21) owing to stable labour cost and lower than proportionate increase in other operational costs. Consequently, PAT margin

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

also improved to 1.89% in FY22 as compared to losses in FY21. Furthermore, GCA increased to Rs.22.33 crore in FY22 (Rs.4.55 crore in FY21).

Experienced promoter group in infrastructure sector with demonstrated track record of fund infusion for servicing debt obligations: MIPL is a part of Vadodara-based Madhav group and is an in-house EPC arm of the group. MIPL is promoted by Mr. Ashok Khurana & his son Mr. Amit Khurana, who possess vast experience in the infrastructure industry. The promoters are ably supported by team of experienced professionals for timely execution of the projects. The Madhav group has demonstrated strong project execution capability in both road & solar segment. The promoter group has demonstrated track record of arranging funds through monetization of solar power/ non-core assets, recovery of advances and infusion of unsecured loans to cater its debt obligations and incremental working capital requirements of MIPL.

Segmentally diversified order book with limited counterparty credit risk: MIPL's current order book is well diversified amongst various segments including Solar (57%), road (31%), bridges (10%), and other civil works (2%). Moreover, majority of the workorders are from government entities including urban local bodies, state governments and central government undertakings which translate into limited counter party credit risk for MIPL. Also, majority of orders on hand, excluding solar power projects, have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent.

Key rating weaknesses:

Leveraged capital structure and modest debt coverage indicators: MIPL's capital structure improved during FY22 owing to foreclose of entire project debt pertaining to Uttarakhand solar power project and scheduled repayment of other term debt obligations along with accretion of profits to its reserves; albeit continued to remain leveraged marked by an overall gearing of 1.19x as on FY22 end (2.29x as on FY21 end).
Debt coverage indictors marginally improved in FY22, albeit remained modest marked by PBILDT interest coverage ratio of 1.85x in F22 (0.84x in FY21) and total debt to gross cash accruals (TDGCA) of 12.23 years in FY22 (65.26 years in FY21).
Going forward, capital structure and debt coverage indicators envisaged to improve owing to pre-payment of GECL and mortgage term debt.

Geographically concentrated orderbook with increase in fixed price contracts:
As on June 30, 2022, MIPL had an orderbook of around Rs.684 crore (Rs.702 crore as on March 31, 2021), translating into moderate revenue visibility of 1.77x of TOI for FY22. The orderbook remained geographically concentrated in the state of Gujarat and Madhya Pradesh, forming around 78% of its current orderbook, exposing MIPL to any adverse changes in government policies/ political upheavals in the region. As on June 30, 2022, orders aggregating to 27% are slow moving and around 48% are awarded after the last review and are at a nascent stage of execution. However, as articulated by the management, the delay is primarily attributable to the counterparties and are expected to be completed within the revised timelines as extended by the respective authority.
Notwithstanding above, EPC contracts in solar power segment are exposed to challenges w.r.t volatile polysilicon & metal prices, availability of solar modules, land allotment and receipt of prerequisite clearances. Considering the contracts are awarded on fixed price basis, execution of these contracts within predefined timelines and cost remains crucial.

Presence in fragmented and intensively competitive construction industry: MIPL is a mid-sized player operating in intensely competitive construction industry, wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which restricts the margins. However, thrust of the government on infrastructure development is expected to augur well for construction players such as MIPL in the medium term.

Working capital intensive nature of operations: MIPL's operations are working capital intensive, as reflected in gross current assets days at around 302 days as on FY22 end (367 days as on FY21 end) on account of receivables days (including retention money) and inventory days of 106 days (138 days as on FY21 end) and 91 days (115 days as on FY21 end) as on FY22 end respectively, over and above margin money requirement for bank guarantees and security deposits. Thus, MIPL's working capital cycle, albeit improved, remained elongated at 124 days in FY22 (182 days in FY21). CARE expects working capital intensity to increase going forward as MIPL now primarily an EPC company having sizeable portion of contracts from solar segment, wherein credit period on key materials is limited as compared to civil and road construction segment.

Liquidity: Stretched
Increase in working capital intensity with scaling-up of EPC operations, high debt repayment obligations and low liquidity cushion in terms of unutilized working capital limits necessitated MIPL to avail Inter-corporate borrowings to bridge the

shortfall. While a part of debt reduction plan envisaged in FY22 through sale of solar power plant in Uttarakhand has materialised, prepayment of debt through sale of non-core assets i.e. land parcel (post-merger of its subsidiary) has been delayed due to delay in receipt of requisite approvals. Advance against land sale of Rs.7 crore received till August 26, 2022 has been entirely utilised towards pre-payment of term debt. MIPL has further, foreclosed another term debt of around Rs.6.08 crore partly out of proceeds from income tax refund received in September 2022 and balance through internal cash accruals. As articulated by the management, the transaction for sale/transfer of land parcel located at Sevasi, Vadodara shall be completed in Q3FY23. This transaction will be resulting in capital gain of around Rs.24 crore, which shall be majorly utilised for funding incremental working capital requirements, rather than prepayment of debt as envisaged earlier. Consequently, debt repayment obligation in FY23 will remain marginally higher and is envisaged to match GCA levels. Shortfall in debt servicing, if any, shall be funded by promoter group/ surplus generated from group entities. Timely receipt of need-based support from its group entities and proceeds from land parcel remains a key rating monitorable.
Average utilisation of its fund and non-fund-based limits remained high at 84% and 80% respectively during the trailing 12 months ended on July, 2022. As on March 31, 2022, MIPL had free cash and bank balance of Rs.2.47 crore (apart from lien marked FDR of Rs.44.19 crore).

Analytical approach: Standalone, while factoring need-based support from its promoters and group entities.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Factoring Linkages Parent Sub JV Group
Policy on Withdrawal of Ratings
Solar Power Projects
Power Generation Projects

About the company
Vadodara-based MIPL (erstwhile known as Myraj Consultancy Limited) is an in-house EPC arm of the Madhav group promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana. MIPL is also a developer-cum-operator for solar power projects and undertakes O&M of road, solar and hydro power projects of the Madhav group. The promoters of MIPL were the erstwhile promoters of MSK Projects India Ltd (MSK), which was subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited].

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 20, 2022 (UA)
Total operating income	262.78	386.68	59.37
PBILDT	26.89	49.81	9.92
PAT	-12.04	7.30	1.21
Overall gearing (times)	2.29	1.99	NA
Interest coverage (times)	0.84	1.85	1.73

A: Audited; UA: Un-audited; NA: Not Available

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2.

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3.

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	40.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	355.92	CARE BBB-; Stable / CARE A3
Term Loan-Long Term	-	-	-	September, 2031#	0.00	Withdrawn
Term Loan-Long Term	-	-	-	September, 2029#	64.85	CARE BBB-; Stable
Term Loan-Short Term	-	-	-	April, 2021	0.00	Withdrawn

#adjusted with moratorium availed by MIPL

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (03-Sep-21)	1)CARE BBB-; Negative (16-Oct-20)	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (CWN) (21-Jun-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	355.92	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (03-Sep-21)	1)CARE BBB-; Negative / CARE A3 (16-Oct-20)	1)CARE BBB-; Stable / CARE A3 (24-Jan-20) 2)CARE BBB-; Stable / CARE A3 (08-Aug-19) 3)CARE BBB+ / CARE A3+ (CWN) (21-Jun-19)
3	Term Loan-Long Term	LT	-	-	-	1)CARE BBB-; Negative (03-Sep-21)	1)CARE BBB-; Negative (16-Oct-20)	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19) 3)CARE BBB+ (CWN) (21-Jun-19)
4	Term Loan-Long Term	LT	64.85	CARE BBB-; Stable	-	1)CARE BBB-; Negative (03-Sep-21)	1)CARE BBB-; Negative (16-Oct-20)	1)CARE BBB-; Stable (24-Jan-20) 2)CARE BBB-; Stable (08-Aug-19)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
								3)CARE BBB+ (CWN) (21-Jun-19)
5	Term Loan-Short Term	ST	-	-	-	1)CARE A3 (03-Sep-21)	1)CARE A3 (16-Oct-20)	-

Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Term Loan-Long Term	Simple
4	Term Loan-Short Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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