

March 25, 2022

Mavani Construction: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	1.25	1.25	[ICRA]BB-(Stable); reaffirmed
Proposed Cash Credit	-	0.50	[ICRA]BB-(Stable); Assigned
Working Capital Term Loan	1.00	2.17	[ICRA]BB-(Stable); reaffirmed and assigned
Proposed Working Capital Term Loan	2.00	2.25	[ICRA]BB-(Stable); reaffirmed and assigned
Non-fund-based Bank Guarantee	8.60	10.10	[ICRA]A4; reaffirmed
Proposed Bank Guarantee	1.50	-	-
Unallocated Limits	0.65	0.23	[ICRA]BB-(Stable)/[ICRA]A4; reaffirmed
Total	15.00	16.50	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings of Mavani Construction (MC) is constrained by the firm's weak financial risk profile characterised by its moderate-scale operations, weak profitability, leveraged capital structure and weak debt coverage metrics. The ratings also factor in the firm's high geographical and sectoral concentration risks as majority of its operations are skewed towards government-tendered construction projects, mostly in Gujarat, Rajasthan and Maharashtra, catering to the Western Railway. The ratings also consider the vulnerability of the firm's profitability to the adverse fluctuations in key inputs in the absence of price escalation clauses in the contracts, and the partnership nature of the firm, wherein any significant withdrawal from the capital account would adversely affect its net worth and capital structure.

The ratings, however, favorably factor in the extensive experience of the key promoters in the civil construction industry which helps generate repeat business and its reputed clientele comprising government entities resulting in low counterparty credit risk.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that MC will continue to maintain its business position in the civil construction industry.

Key rating drivers and their description

Credit strengths

Extensive track record in civil construction industry – MC has been executing civil construction projects for government players (Western Railway) since 1935. The company's current partners - Mr. Vinodrai B Mavani, Gitaben V Mavani, Darsh V Mavani and Deep V Mavani - have extensive experience in the industry. The firm is a registered government contractor and executes government-tendered civil construction contracts such as bridges, railway lines, platforms, roads and railway colonies for the railways. This helps in generating repeat business, evident from an order book of Rs. 149.2 crore (~2.7 times the revenues in FY2021) as on March 15, 2022 entirely from Western Railway.

Reputed clientele base and modest order book –Majority of MC’s past and present work orders are from Western Railway. Hence, a reputed clientele helps to mitigate the counterparty credit risks for the firm.

Credit challenges

Weak financial risk profile– The firm’s scale of operations remains moderate, with an operating income (OI) of Rs. 54.2 crore in FY2021 and Rs. 46.0 core in 11M FY2022 (unaudited provisional financials). Further, the profitability continues to be low, with an operating margin of 3.2% in FY2021 (FY2020-4.5%) along with a net profit margin of 1.1% in FY2021 (FY2020-2%). The capital structure remained leveraged due to low net worth, with a gearing at 1.4 times as on March 31, 2021. The debt coverage indicators remained weak due to low profitability and high debt levels, with the total debt/OPBDITA at 4.4 times, TOL/TNW of 3.1 times, DSCR at 0.5 times and interest coverage at 1.7 times as on FY2021-end.

Geographical and sectoral concentration risks– Most of MC’s executed projects and those in hand are concentrated in Gujarat, Rajasthan and Maharashtra, exposing it to geographic and political risks. Further, it faces sectoral concentration risk as its focus is entirely on government-tendered projects in the railway construction segment.

Profitability exposed to volatility in key inputs – MC’s profit margins are exposed to the fluctuations in the prices of its key inputs because of the absence of price escalation clauses in certain contracts. The firm also has to maintain execution timelines and performance parameters because of the liquidated damages (LD) clause in the contracts.

Risks associated with partnership concern – Given the partnership nature of the firm, any significant capital withdrawal could adversely impact the capital structure.

Liquidity position: Stretched

The overall liquidity position of the company is stretched because of high debt repayments, which are tightly matched with the accruals, and the high working capital requirements. Hence, timely support from the promoters through equity infusion/unsecured loans remains crucial in case of any cash-flow mismatch.

Rating sensitivities

Positive factors – The ratings could be upgraded with sustained improvement in scale and profitability along with a substantial improvement in net worth and liquidity.

Negative factors – Negative pressure on the ratings may arise if the firm’s scale of operations declines due to significant delays in execution, adversely impacting its financial performance and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the firm’s standalone financials

About the company

Mavani Construction (MC) was established as a proprietorship firm by Mr. Popatbhai Mavani in 1935. The firm was converted into a partnership firm in 1997. The firm is a government contractor and executes government-tendered civil construction contracts for railways like bridges, railway lines, platforms, roads and railway colonies etc. The key customer of the firm is Western Railway.

Key financial indicators (audited)

	FY2020	FY2021	11M FY2022P
Operating Income (Rs. crore)	54.9	54.2	46.0
PAT (Rs. crore)	1.1	0.6	0.7
OPBDIT/OI (%)	4.5%	3.2%	2.4%
PAT/OI (%)	2.0%	1.1%	1.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.9	3.1	3.2
Total Debt/OPBDIT (times)	3.1	4.4	7.2
Interest Coverage (times)	1.9	1.7	1.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, P: Provisionals

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 29, 2020 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 25, 2022	Dec 17, 2020	-	-
1	Cash Credit	Long-term	1.25	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
2	Proposed Cash Credit	Long-term	0.50	-	[ICRA]BB-(Stable)	-	-	-
3	Working Capital Term Loan	Long-term	2.17	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
4	Proposed Working Capital Term Loan	Long-term	2.25	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
5	Bank Guarantee	Short-term	10.10	-	[ICRA]A4	[ICRA]A4	-	-
6	Proposed Bank Guarantee	Short-term	-	-	-	[ICRA]A4		
7	Unallocated Limits	Long-term/Short-term	0.23	-	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]BB-(Stable)/[ICRA]A4		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Proposed Cash Credit	Simple
Working Capital Term Loan	Simple
Proposed Working Capital Term Loan	Simple
Bank Guarantee	Very Simple
Proposed Bank Guarantee	Very Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	8.50%	NA	1.25	[ICRA]BB-(Stable)
NA	Proposed Cash Credit	NA	NA	NA	0.50	[ICRA]BB-(Stable)
NA	Working Capital Term Loan	FY2020	8.50%	FY2023	2.17	[ICRA]BB-(Stable)
NA	Proposed Working Capital Term Loan	NA	NA	NA	2.25	[ICRA]BB-(Stable)
NA	Bank Guarantee	NA	NA	NA	10.10	[ICRA]A4
NA	Unallocated Limits				0.23	[ICRA]BB-(Stable)/[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis-Not applicable

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