December 14, 2022

Mahalakshmi Infraprojects Private Limited: Ratings reaffirmed; removed from 'Issuer Non-cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	30.00	30.00	[ICRA]BBB(Stable); rating reaffirmed and removed from 'Issuer Non-cooperating' category
Short-term – Non-fund based	220.00	220.00	[ICRA]A3+; rating reaffirmed and removed from 'Issuer Non-cooperating' category
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings favourably factor in Mahalakshmi Infraprojects Private Limited's (MIPL) long experience in executing irrigation projects in Maharashtra, and its sizeable order book position of Rs. 1,421.50 crore, which provides medium-term revenue visibility. The ratings also take into account its reputed clientele comprising public sector entities such as Municipal Corporation of Greater Mumbai (MCGM), entities under the Water Resources Department, Government of Maharashtra (GoMWRD) and Telangana Irrigation Devp. Corp. The ratings continue to derive comfort from the company's healthy financial risk profile, marked by healthy operating profitability, low leverage with no external borrowings, and strong liquidity position.

The ratings are, however, constrained by the company's moderate scale of operations in comparison to its pending order book, which will require significant execution ramp-up for timely completion of the orders-in-hand. ICRA notes that a large order of Rs. 1,531 crore awarded to the company has been cancelled. MIPL is also exposed to moderate execution risk, given that over half of its order book as on March 31, 2022 was in the nascent stage of execution (less than 20% executed). Further, it is also exposed to high geographical and project concentration risks. The ratings are also constrained by the lack of adequate non-fund based bank facilities, which are crucial for construction companies as they have to furnish bank guarantees (BGs) to clients. In absence of sanctioned BG facilities, MIPL has provided 100% margin (in the form of fixed deposits) for the BGs availed. While the company has applied for these bank facilities, delays in sanction or sanction of lower than requisite amount could entail blocking of sizeable funds towards the security deposits/performance guarantees to be provided for the new projects and impact its liquidity position. The ratings also note the sizeable stuck receivables and retention money/security deposits held by clients, which has resulted in a high working capital intensity.

ICRA has also taken note of a hybrid energy project to be developed on design, built, finance, operate and transfer (DBFOT) basis in a special purpose vehicle (SPV) promoted by an associate company of MIPL. This project would entail sizeable equity commitment and the financial closure is pending. ICRA is given to understand that equity is to be infused by promoters in their individual capacity with no dependence on MIPL. However, the debt for this project is yet to be tied up, which results in uncertainties for funding of this project. Any sizeable financial support to the Group entities, which could have a bearing on MIPL's liquidity, will be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's opinion that MIPL will continue to benefit from its experience in the construction sector, sizeable orders in hand, and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Longstanding experience of promoters in executing civil construction projects – The company's promoters have around four decades of experience in executing construction projects, with a major focus on irrigation projects. Their long tenure experience in the civil construction space has helped MIPL to establish strong relationships with its customers as well as suppliers.

Healthy order book position – The company reported an outstanding order book position of Rs. 1,421.5 crore as on March 31, 2022, resulting in OB/OI ratio of ~5.8 times of the operating revenues of FY2022 (~3.3 times adjusting for slow-moving orders). While the order book provides healthy revenue visibility, it requires significant scale-up of execution for timely completion. ICRA takes note of the cancellation of an order worth Rs. 1,531 crore in FY2022. Any further material order cancellation will be a credit negative and will continue to be a key monitorable.

Comfortable financial risk profile – The company has a comfortable financial risk profile, driven by healthy operating profitability, low leverage, and strong liquidity position. The liquidity is supported by availability of unencumbered cash and liquid investments of Rs. 258 crore as of November 30, 2022 (Rs. 296.6 crore as on March 31, 2022). Despite a decline in the operating profitability, it remained healthy at above 15.0% during the past two years. The company has no external borrowings, with a strong net worth of Rs. 375.25 crore, and relatively low total outside liabilities, resulting in low leverage as reflected in TOL/TNW of 0.6 times as on March 31, 2022.

Credit challenges

Moderate scale of operations and exposed to execution risk as ~53% of order book is in nascent stages of execution – The company's scale of operations remained moderate with revenue of Rs. 231.6 crore in FY2021 and Rs. 243.7 crore in FY2022. The moderate scale limits MIPL's eligibility for bidding for larger size contracts. Going forward, supported by the healthy order book position, it is estimated to report revenue growth in the range of 10%-15% over the medium term. However, its scale of operation will continue to remain moderate. The company is exposed to high execution risk, given that construction work was yet to commence for around 53% of the order book as on March 31, 2022. Timely ramp-up in order execution will be essential to support its revenue growth.

High order book concentration – MIPL's current outstanding order book is concentrated on dams, reservoir and irrigation segment, which formed ~86% of the unexecuted order book as on March 31, 2022. Further, 88% of the projects are confined to Maharashtra, and hence the company is exposed to geographical concentration risk. While the geographical concentration supports optimal resource deployment, its impact on the revenues could be severe if the region gets impacted by unforeseen circumstances (viz. heavy rains, lockdowns, etc). Further, the project and client concentration remain high, with the top three clients contributing 100% to the total unexecuted order book and the top five orders accounting for ~93% to the unexecuted order book as on March 31, 2022.

Sizeable non-fund based exposure with 100% cash margin; unavailability of sanctioned bank limits continues to be a constraint – At present, the company does not have any sanctioned credit facilities (fund-based or non-fund based), as it had surrendered its earlier facilities in March 2021. In absence of sanctioned facilities, MIPL provided 100% margin (in the form of fixed deposits) for BGs availed. However, as the company is expecting inflow of new orders, the BG requirements are likely to increase and it has applied for the credit facilities with the bank. In the scenario of lower-than-expected sanction amount or any delays in sanction of these facilities, MIPL would have to provide BG against 100% margin, which would block sizeable funds and, in turn, impact its liquidity position. Further, like any construction entity, it is exposed to contingent liabilities mainly for contractual performance, earnest money deposit, etc.

Exposure towards BOT project in the Group – MIPL's sister concern (in joint venture with Shapoorji Pallonji and Company Private Limited) bagged one development project in February 2021 on DBFOT basis, which includes development of renewable hybrid energy project facilities of hydroelectric power plant and floating solar PV power project at Vaitarna Dam in Maharashtra for MCGM. This project will require Rs. 536 crore of investment and is to be developed in an SPV (Vaitarna Solar-Hydro Powergenco Private Limited). The project financing is yet to be finalised and would entail a mix of equity and debt, which are yet to be tied-up. ICRA is given to understand that MIPL is not planning to infuse equity in this project and will be undertaking only the engineering, procurement and construction (EPC) work. Any sizeable financial support to the Group companies, which can impact MIPL's liquidity position, would be a credit negative.

Liquidity position: Strong

The company's liquidity is strong as reflected by its sizeable unencumbered cash and bank balances of ~ Rs. 296.6 crore as on March 31, 2022, and Rs. 258 crore as of November 30, 2022. MIPL does not have any external borrowings at present, however, it has to meet the margin money requirement for non-fund based facilities. The available liquidity, along with the expected cash flows from operations, are likely to be sufficient to meet its margin money requirement over the near to medium term.

Rating sensitivities

Positive factors – The ratings maybe upgraded if there is a significant improvement in its scale of operations, along with diversification of clientele, while maintaining the profitability and liquidity position

Negative factors – The ratings may be downgraded if there is substantial decline in its revenues or profitability, or increase in working capital intensity, or higher-than-expected investments in DBFOT/BOT/HAM projects leading to moderation of credit metrics or liquidity position. The ratings could also come under pressure if MIPL is not able to tie-up adequate non fund based limits in time or is unable to achieve financial closure for the DBFOT project resulting in blockage of significant funds of MIPL towards this project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

MIPL was incorporated as a public limited company in December 2000 and reconstituted into a private limited company in May 2019. It is promoted by Mr. Ravindra Shinde, a civil engineer, who has been associated with the infrastructure construction business since 1983. MIPL is an infrastructure construction company, with experience in undertaking irrigation projects in the state of Maharashtra. The company is involved in various civil construction and infrastructure projects, such as earthen, masonry, and concrete dams, earth retaining structures, concrete barrages with gates, canals with and without lining, tunnels in soft and hard rock with shafts, power projects in BOT, road project, electro-mechanical projects, turnkey projects on an engineering, procurement, and construction (EPC) basis. The Company has entered the power generation segment from 2011 onwards with its associate Company. It has undertaken various types of infrastructure projects across Maharashtra, Telangana, and Andhra Pradesh. The company has recently taken up projects in wastewater treatment and solar power segments.

Mr. Ravindra D. Shinde has around four decades of experience in the construction business. He is the company's Managing Director and is a B. E. (Civil) engineer. He has wide and varied experience in administration, management, and construction with which he has been able to pilot the firm into major areas of contract work. He is supported by his daughter (Ms. Prachi) and son-in-law (Mr. Abhay V. Nayak – Vice President) in the business, apart from an experienced and professional management team.

Key financial indicators (audited)

MIPL	FY2021	FY2022
Operating income	231.6	243.7
PAT	36.4	35.2
OPBDIT/OI	19.3%	17.7%
PAT/OI	15.7%	14.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	45.1	389.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA:

Other CRA	Ratings	Date
CARE Ratings	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING	September 28, 2021

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 14, 2022	Oct 26, 2022	Jul 30, 2021	-	-
1	**Long-term-Fund-based/CC**	Long-Term	30.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	-	-
2	**Short-term Non-fund based**	Short-Term	220.00	-	[ICRA]A3+	[ICRA]A3+ ISSUER NOT COOPERATING	[ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/CC	Simple
Short-term – Non-fund based	Very Simple

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 analysing 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 are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term – Fund-based/CC**	-	-	-	30.00	[ICRA]BBB(Stable)
NA	**Short-term – Non-fund based**	-	-	-	220.00	[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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