



M.S. Khurana Engineering Limited

RATING HISTORY

	Amount (Rs. Crores)	Rating Outstanding July 2010	Previous Ratings March 2009	
Rated on long-term scale				
Fund Based – Cash Credit	25.0	LBBB+	LBBB	
Non-Fund Based Limit–Bank Guarantee/Letter of Credit	100.0	LBBB+	LBBB	
Rate on short-term scale				
Non-Fund Based Limit – Bank Guarantee/Letter of Credit	10.0	A2+	A2	

ICRA has revised the ratings of LBBB (pronounced L triple B) to LBBB+ (pronounced L triple B plus) of the fund-based limit of Rs. 25.0 Crores and non-fund based limit of Rs. 100.0 Crores of M.S. Khurana Engineering Limited (MSKEL)[†]. ICRA has assigned Stable Outlook to the long term rating. ICRA has also revised the rating of A2 (pronounced A two) to A2+ (pronounced A two plus) of the non-fund based limit of Rs. 10.0 Crores of MSKEL[†].

The ratings reflect MSKEL's established track record in the construction industry, experienced management team, revenue visibility emanating from healthy order book position having moderate client concentration and segmental diversification. The ratings are further supported by significant improvement in the operating margin (OPBDITA/OI) despite almost 9% decline in Operating Income (OI) in FY10. However, the ratings are constrained by high geographical concentration risk in the company's order-book and delays in commencement and execution of some of the ongoing projects resulting on account of external factors such as problems related to land acquisitions and other approvals. The ratings also take into account the losses incurred by the company's wholly owned subsidiary 'M.S. Khurana Infrastructure and Toll Road Private Limited' (MSKITL) that has an operational Build-Operate-Transfer (BOT) road project on Bhuj-Nakhatrana stretch in Gujarat.

As of 31st March 2010, the order-book of MSKEL at ~Rs. 251.0 Crores was 1.24 times its OI of FY10. However, orders amounting to Rs. 70.0 Crores (~28% of the order book) from Ahmedabad Municipal Corporation (AMC) towards development of mass housing and Jaipur Development Authority (JDA) towards construction of sewerage treatment plant have not witnessed any significant progress. The work has not yet commenced in these two projects due to problems relating to land acquisition and delay in requisite approvals respectively. While the company's order inflow shrunk in FY10 on account of economic slowdown and company's focus on selective bidding, the same has improved in Q1FY11 with the receipt of a large order from Airport Authority of India (AAI) towards development of runways and taxi tracks at Jalgaon airport (Rs. 28.0 Crores). As of 31st March 2010, MSKEL's order-book was fairly diversified and was comprised of mass housing projects (35%); airport terminal building (25%); roads, runways and transportation system (21%); and treatment plants (10%).

MSKEL's order-book is largely contributed by the Government clients in Gujarat (80%) and Rajasthan (10%). Presently, MSKEL is executing two projects in 40:60 joint venture. viz. construction of an integrated terminal building at Bhopal airport (Rs. 125.0 Crores) with B. G. Shirke Construction Technology Pvt. Ltd (BG Shirke-MSKEL JV) and construction of Bus Road Transport System (BRTS) corridors in Ahmedabad (Rs. 129.0 Crores) with G R infrastructure Limited (GRIL-MSKEL JV). The company's projects are largely being executed in Gujarat (81%) hence resulting in a relatively high geographical concentration in its order-book.

MSKEL's subsidiary 'MSKITL' is operating a 44.6 km long toll project awarded by Gujarat State Road Development Corporation (GSRDC) from Bhuj to Nakhatrana on State Highway-42 (SH-42). The tolling on the project commenced in Feb-2008 and is to end in Mar-2019. The outstanding loan of Rs. 19.50 Crores taken by the project is to be repaid on quarterly basis till March 2017. However, the toll project has been generating losses since inception on account of lower than anticipated traffic of commercial vehicles. The Government of Gujarat has restricted the sale of lignite produced

[†] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



in Panendhero mines located in the vicinity of the toll project to only selective power plants. This impacted the volume of commercial vehicles plying on the project stretch since June-2008 resulting in low toll revenue. MSKEL has provided a corporate guarantee against the loan of MSKITL and is therefore committed to servicing the debt.

Based on the provisional figures on a consolidated basis; MSKEL's Operating Income (OI) declined by 8.90% to Rs. 202.85 Crores in FY10 from Rs. 222.67 Crores in FY09. The decline in the OI was partly due to MSKEL's focus on executing large-sized projects in joint ventures in which its share is limited to 40% and initial delays in execution of some of the projects largely on account of problems with land acquisition, approval of project designs and obtaining approvals from authorities. While the projects received from AMC and JDA have not yet commenced; the execution of new airport terminal building at Bhopal airport; hospital building on Government Medical College campus at Patan in Gujarat and mass housing projects under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in Ahmedabad has faced some delays. Despite fall in turnover, the company's operating margin improved to 15.7% in FY10 from 12.9% in FY09. The company's working capital intensity (NWC/OI) has remained low at 8.4% in FY10 supported by high creditor days of 96 and low inventory days of 30. MSKEL's debtor days increased from 41 days in FY09 to 70 days in FY10.

MSKEL's gearing increased from 1.07 times as of 31st March, 2009 to 1.22 times as of 31st March, 2010 largely on account of increase in cash credit utilisation and interest-free unsecured loans extended by MSKEL to MSKITL. As of 31st March 2010; the debt stood at Rs.88.1 Crores which comprise of cash credit (40%), term loan (32%) and unsecured loans (28%). Going forward, MSKEL plans to incur a capital expenditure of ~ Rs. 5.0 Crores in near term which would be funded through a mix of internal accruals and external financing.

In FY10, the company underwent a change in the shareholding pattern with the buyback of 20% of the equity capital from the promoters. Consequently, MSKEL's equity capital decreased from Rs. 10.78 Crores in FY09 to Rs. 8.63 Crores in FY10. Further, 33.4% of the equity capital of the company was transferred from the other companies held by promoter's associates to promoter-owned 'M.S. Khurana Builders Pvt. Ltd.' (MSBPL). Presently, the company is held by promoters and associates (53.3%); MSBPL (41.7%) and group company namely M/s. New Age Builders (4.9%).

About the company

M.S. Khurana Engineering Limited (MSKEL) is an Ahmedabad-based construction company which was established in 1968 as a partnership firm and converted to a public limited company in 2002. The company executes projects primarily in states namely Gujarat, Rajasthan and Madhya Pradesh. MSKEL operates in segments such as mass housing; multi-storied, specialized and airport terminal building; roads, runways and transportation system; sewerage treatment plant and drainage works. The company executes projects either on an independent basis or in joint venture with other experienced partners in order to pre-qualify for large-sized projects. Besides, MSKEL has a wholly owned subsidiary viz. M.S. Khurana Infrastructure and Toll Road Private Limited (MSKITL) which is operating a roadway project on Bhuj-Nakhatrana stretch in Gujarat on BOT basis.



KEY FINANCIALS

		FY10*	FY09	FY08
Operating Income (OI)	Rs Crores	202.85	222.67	224.46
OPBDIT	Rs Crores	31.97	28.89	24.75
Profit After Tax (PAT)	Rs Crores	10.56	9.37	14.58
Net Cash Accruals	Rs Crores	16.72	15.52	18.65
Total Debt	Rs Crores	88.15	69.27	66.55
Tangible Net worth	Rs Crores	72.08	64.53	56.41
OPBDIT/OI	%	15.76%	12.97%	11.03%
PAT/OI	%	5.21%	4.21%	6.50%
PBIT/Average (TD+TNW+DTL)	%	23.52%	24.76%	29.03%
Total Gearing	times	1.22	1.07	1.18
OPBDIT/Interest & Finance Charges	times	2.95	2.98	5.47
(GCF+ Interest)/Interest	times	1.93	1.64	5.06
NCA/Total Debt	%	19%	22%	28%
Total Debt/OPBDITA	times	2.76	2.40	2.69
Debtor days	days	69.99	41.96	21.12
Inventory days	days	29.25	41.70	36.87
Creditor days	days	96.23	68.87	64.89
NWC/OI	%	8.48%	4.18%	-0.87%

Note: Amounts in Rs. Crores

*Based on provisional consolidated figures

OI – Operating Income, OPBDITA – Operating Profit Before Depreciation Interest Tax and Amortization, PAT – Profit After Tax,

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