May 08, 2023

Mackintosh Burn Limited: Long-term rating upgraded to [ICRA]BB (Stable) and short-term rating reaffirmed; removed from 'Issuer Not Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	40.00	40.00	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable) and removed from 'Issuer Not Cooperating' category
Non-fund based – Bank guarantee	100.00	100.00	[ICRA]A4; reaffirmed and removed from 'Issuer Not Cooperating' category
Unallocated limits	24.45	-	-
Unallocated limits	-	24.45	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable); reaffirmed [ICRA]A4 and removed from 'Issuer Not Cooperating' category
Total	**164.45**	**164.45**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reflect Mackintosh Burn Limited's (MBL) moderate operating profitability margins (2.5-3%) due to slow execution amid project delays and higher sub-contracting work. The company's existing bank guarantee (BG) lines of Rs. 195 crore have been fully utilised as on March 31, 2023 and further sanctions are yet to be tied up. This could impact the overall project execution, profitability and liquidity. It has high working capital requirements as payments from the state government entities are often delayed. Thus, the same have largely been funded by project advances, deposits from sub-contractors and extended credit from suppliers. However, with reduced availability of project advances during FY2021-FY2022 because of a change in the state government's policy on such mobilisation advances, MBL's liquidity has been impacted further and is likely to remain under pressure going forward. It also remains exposed to execution risks, with over 70% of the outstanding order book at a preliminary stage of execution (lower than 25%), high geographical and customer concentration risks, with projects concentrated in West Bengal and its high dependence on state government entities for fresh orders.

The ratings, however, draw comfort from the company's status as a Government of West Bengal (GoWB)-controlled entity as well as its long and established track record in the construction industry. These factors aid MBL in securing orders from GoWB entities, which account for around 90% of the outstanding order book of Rs. 1,991.6 crore as of February 2023. These orders have an average execution tenure of two to two and half years, thereby providing adequate revenue visibility in the near to medium term. The company's ability to timely execute these projects remains crucial as slippages could result in liquidation damages and cost overruns, which may have a bearing on its profitability. ICRA also takes note of the sizeable contingent liabilities (excluding BG) of Rs. 582.8 crore as on March 31, 2022, which if materialised could have an adverse impact on its liquidity.

The Stable outlook on long-term rating reflects ICRA's opinion that MBL will continue to benefit from its status as a GoWB entity, along with the established track record of operations and adequate order book.

Key rating drivers and their description

Credit strengths

Status as GoWB entity; long track record in construction industry - MBL is a state government entity, with the GoWB holding 51% stake. The company has been constructing primarily buildings, roads, and bridges, for over 180 years. Its board of directors mainly comprises representatives from the GoWB. ICRA notes that MBL's established track record and its status as a GoWB-controlled entity have helped it in securing orders from GoWB entities.

Outstanding order book provides near-to-medium-term revenue visibility - MBL had an outstanding order book of Rs. 1,991.6 crore as of February 2023, with an average execution tenure of 2-2.5 years, providing adequate revenue visibility over the near to medium term.

Price escalation clause protects margins against input cost fluctuations - The contracts executed by MBL have an average execution cycle of two to three years and most contracts have a price variation clause pertaining to fluctuation in raw material and manpower costs, which shields its profitability from any adverse movement in raw material and labour costs to a large extent.

Credit challenges

High working capital intensity with sizeable, long-pending receivables from state government entities - MBL's working capital intensity remains high, characterised by an NWC/OI of 66.1% as on March 31, 2022 against 59.6% as on March 31, 2021. The same is led by its stretched receivables position, with nearly 78% of its debtors outstanding for more than six months. Besides, the company had unbilled/accrued revenues of Rs. 183 crore as on March 31, 2022, which added to its high working capital intensity. Majority of MBL's orders are from GoWB entities. As payments from these entities are often delayed, the working capital requirements are largely funded by project advances, deposits from sub-contractors and extended credit from suppliers. However, on account of reduced availability of project advances due to a change in the state government's policy on such advances (i.e., mobilisation advances becoming interest bearing), MBL's liquidity profile has been impacted further over the past two years, as evidenced by extended credit from suppliers/contractors and increased dependence on lenders to support its working capital requirements. Recovery of these long-pending receivables and improvement in working capital cycle remains a key credit monitorable.

Limited availability of working capital lines impacts bidding and execution of fresh orders - MBL has a high requirement of BGs as mobilisation advances are provided in lieu of BGs and are also required to provide performance and/or defect liability guarantees for most projects. The company's current BG lines of Rs. 195 crore has been fully utilised and additional guarantees are being availed on 100% cash margin basis. While ICRA notes that MBL is in the process of obtaining an enhancement in its BG lines, the same is yet to be tied up. Limited availability of BGs in the interim may have an adverse impact on bidding and execution of fresh orders.

Exposure to execution risks for ongoing projects; high geographical and customer concentration risk - MBL is exposed to significant execution risks, with over 70% of the outstanding order book at a preliminary stage of execution (lower than 25%). Several projects are delayed beyond their original schedules. However, in some cases, the delays are due to pending land approvals/designs. It has applied for timeline extensions, some of which have been granted by the project principals, thereby mitigating the risks to an extent. Over 90% of the outstanding order book are from GoWB entities, which exposes it to customer concentration risk. MBL undertakes projects primarily in West Bengal, resulting in high geographical concentration risk.

Liquidity position: Stretched

MBL's liquidity remains stretched on account of its elongated receivables position and delays in recovery of the same, which led to high working capital utilisation levels, with an average of 75% utilisation of its sanctioned limits during the last 12 months period that ended in January 2023. While enhancement in NFB lines in FY2023 provided some cushion in working capital limits, the sizeable addition to order book in the year end necessitates incremental working capital line sanction. Limited WC availability makes the company issue BGs against 100% FD for their projects, which further stretches its liquidity. It has modest unencumbered cash balances and unutilised limits in comparison to its scale of operations and projects in hand. Moreover, crystallisation of contingent liabilities could adversely impact its liquidity position and remains a key monitorable. However, the company has no major scheduled capex commitments over the near to medium term and recovery of long-pending receivables could support its liquidity profile.

Rating sensitivities

Positive factors - Sustained improvement in profitability, along with substantial recovery of more than six months receivables and/or advances from revenue authorities, resulting in improvement in working capital cycle and liquidity position would be the key sensitivities for a rating upgrade.

Negative factors - Negative pressure on the ratings could arise in case of delays in project execution or moderation in profitability or further stretch in the working capital cycle, which impacts MBL's coverage metrics and liquidity position. Crystallisation of any significant contingent liability or inability to secure additional credit lines, in a timely manner, may put downward pressure on the company's ratings.

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 standalone financial statements of the rated entity.

About the company

Mackintosh Burn Limited (MBL) was originally set up as a partnership firm in Kolkata in 1834. It was converted to a private limited company in 1913 and subsequently to a deemed public limited company in 1956. It was converted into a public limited company in 2002 and as on date, the GoWB holds a 51% stake in the company. MBL is one of the oldest construction companies in the country and has been constructing primarily buildings, roads and bridges, for over 180 years. It has constructed some landmark buildings in Kolkata, including St. Paul's Cathedral, Nakhoda Masjid, Dakshineswar Temple, National Library, Scottish Church College, Metro Cinema, Statesman House and the Reserve Bank of India building.

Key financial indicators

	FY2021	FY2022	FY2023P*
Operating income	383.6	526.0	750.0
PAT	5.3	8.1	-
OPBDIT/OI	2.9%	2.9%	-
PAT/OI	1.4%	1.5%	-
Total outside liabilities/Tangible net worth (times)	2.3	2.8	-
Total debt/OPBDIT (times)	2.9	7.1	-
Interest coverage (times)	3.6	2.8	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 08, 2023	February 28, 2023	Dec 31, 2021	Sep 4, 2020
1	Fund-based – Cash credit	Long Term	40.00	27.2	[ICRA]BB (Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)
2	Non-fund based – Bank guarantee	Short Term	100.00	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A3	[ICRA]A3+
3	Unallocated limits	Long Term	-	-	-	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)
4	Unallocated limits	Long Term and Short term	24.45	-	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based – Bank guarantee	Very Simple
Long-term/Short-term – Unallocated limit	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 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	**Fund-based – Cash credit**	NA	NA	NA	40.00	[ICRA]BB (Stable)
NA	**Non-fund based – Bank guarantee**	NA	NA	NA	100.00	[ICRA]A4
NA	**Unallocated limits**	NA	NA	NA	24.45	[ICRA]BB (Stable)/ [ICRA]A4

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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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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