

August 11, 2023

M.G. Contractors Pvt. Ltd.: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	65.0	65.0	[ICRA]A (Stable); reaffirmed
Long-term – Non-fund based – Bank guarantee	780.00	815.00	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Total	845.00	880.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for M.G. Contractors Pvt. Ltd. (MGCPL) is supported by its continued healthy operational and financial risk profile, driven by its adequate order book position, steady pace of execution along with robust operating profit margins and comfortable leverage position. This led to healthy credit metrics as reflected in interest cover of 8.6 times and total outside liabilities to tangible net worth (TOL/TNW)¹ of 0.84 times as on March 31, 2023 (consolidated for MGCPL and its subsidiary M G Petrochem Private Limited). MGCPL had an order book outstanding of Rs. 2,481.5 crore as on March 31, 2023I resulting in an order book position of ~2.4 times of its FY2023 operating income (OI), which provides adequate near-to-medium-term revenue visibility. The rating continues to derive comfort from the extensive experience of the company’s promoters, its healthy execution track record in the civil construction business and its reputed clientele comprising primarily public sector/Government entities like National High Speed Rail Corporation Limited (NHSRCL), IRCON International, Ministry of Road Transport and Highways of India (MoRTH), and National Highways Authority of India (NHAI), resulting in low counterparty risk.

The rating, however, is constrained by the company’s relatively moderate scale of operations, and execution risk with about 60% of the orders in hand in the early stage of execution. Further, the heightened competition in key segments makes it challenging to secure orders, while keeping its profit margins intact. ICRA has factored in the company’s investment in non-core business (ethanol plant under a subsidiary - MG Petrochem Private Limited (MGPPPL, rated [ICRA]A(CE)(Stable) and [ICRA]BBB(Stable))) having a different risk profile, and project stabilisation risks. Given the corporate guarantees (CGs) extended to the subsidiary (for Rs. 156.4 crore debt), the consolidated leverage (TOL/TNW) remains moderated. While ICRA takes comfort from the operationalisation of the plant in July 2023, the track record of profitable operations are yet to be established. The company’s ability to achieve healthy capacity utilisation and generate healthy cash accruals will be a key monitorable. ICRA has also factored in the funding commitment (of Rs. 91 crore over FY2024-FY2025) towards its subsidiary M.G. Banshidhar Pvt. Ltd. (MGBPL), which is floated for undertaking a hybrid annuity mode (HAM) project from NHAI (Concession Agreement executed). Currently, the project has achieved financial closure but receipt of appointed date (AD) is awaited because of right-of-way related issues and any material delays in receipt of AD would remain a key monitorable. Further, undertaking sizeable new HAM projects, which significantly increases equity commitments and impacts the leverage and liquidity position, could adversely affect the company’s credit profile and will remain a key monitorable.

The rating considers the company’s exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, mobilisation advance and security deposits. Nonetheless, ICRA takes comfort from its healthy execution track record and no crystallisation of guarantees in the past.

The Stable outlook reflects ICRA’s belief that the company would continue to benefit from its experienced management, long and established track record in the construction sector, along with its healthy financial profile and strong credit metrics.

¹ TOL/TNW for MGCPL (Standalone) is 0.62 times as on March 31, 2023.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – MGCPL’s promoters have over three decades of experience in the construction sector, which has helped in creating strong execution capabilities with adequate infrastructure and manpower. Further, the promoters supported MGCPL by infusing unsecured loans in the past. The promoter’s commitment and involvement in the business augurs well for the company.

Healthy clientele comprising Government entities – MGCPL has an established operational track record in the civil construction business and has executed contracts for reputed clients including Government entities such as the NHRCL, DFCCIL, ECR, NHAI, MoRTH, Rail Vikas Nigam Limited (RVNL), and BSRDC. This is favourably reflected in its low counterparty credit risk. The receivable cycle from its clients has remained stable, which along with the availability of funding in the form of mobilisation advances from clients and security advances/deposits from sub-contractors helps in moderating the working capital intensity and ensures limited reliance on working capital debt.

Comfortable financial profile and credit metrics – MGCPL’s consolidated borrowings have increased (due to the debt availed in its subsidiary – MGPPL) from Rs. 72.3 crore as on March 31, 2022 to Rs. 267.1 crore as on March 31, 2023 (consolidated for MGCPL and MGPPL). However, MGCPL’s leverage remains comfortable with TOL/TNW of 0.84 times as on March 31, 2023, driven by healthy accretion to reserves, which has improved its net worth to Rs. 656.9 crore as on March 31, 2023. MGCPL’s financial profile is supported by steady execution and healthy profitability. The healthy profit margins and accruals are driven by the prudent project bidding, own equipment and captive steel plates manufacturing unit and undertaking relatively higher complexity projects involving structures, bridges. Further, the presence of price escalation clauses in most of the outstanding contracts in the order book reduces the exposure to raw material price volatility to an extent. The credit metrics remain comfortable as reflected in TD/OPBDITA of 1.54 times, and interest cover of 8.6 times in FY2023 (consolidated for MGCPL and MGPPL).

Credit challenges

Stiff competition in sector – Intense competition in the key segments in which MGCPL operates makes it challenging to secure orders, while keeping the profit margins intact. Considering the increase in competition over the last two years, its ability to maintain steady profit margins and new order addition, going forward, will be important. ICRA notes MGCPL’s increased focus on the Railways and high-speed rail projects, which should help in securing sizeable new orders. Nevertheless, lower-than-expected order inflows can impact its OI and hence, will remain a key rating sensitivity.

Execution and sectoral risks including bank guarantee requirement – MGCPL’s rating factors in the execution risks, as about 60% of the orders in hand are in the early stages of execution including NHAI HAM project, where the AD is pending and hence carry relatively higher risk. The company’s projects are prone to statutory delays by clients, viz. approvals, site availability, etc. However, if the deferment is not on the part of MGCPL, such delays are not expected to materially impact its credit risk profile. As inherent to the construction industry, it is exposed to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, mobilisation advance and security deposits. Nonetheless, ICRA takes comfort from the company’s healthy execution track record and no crystallisation of guarantees in the past.

Committed investment and support towards subsidiaries – MGCPL through its subsidiary – MGPPL – has set up a grain-based ethanol plant, which became operational in July 2023. It has infused equity/unsecured loans of ~Rs. 114 crore and has extended corporate guarantee for borrowings availed by MGPPL. Given that this project has a different risk profile and is yet to demonstrate a track record of profitable operations, support from MGCPL could be required. Due to these factors, ICRA in its assessment has consolidated the financials of MGPPL with MGCPL. MGCPL has also secured a HAM project from NHAI, which will be developed under a special purpose vehicle (SPV) – MGBPL. MGCPL will be infusing equity/unsecured loans of Rs. 91.07 crore. However, there are no plans of extending corporate guarantee for term loans to be availed by MGBPL. The equity commitment towards the HAM project is planned to be met from the available liquidity and accruals from operations over the

next one-two years. Despite achievement of financial closure, the receipt of AD and project execution will remain a key monitorable. Further, undertaking any sizeable new HAM projects, which significantly increases equity commitments and impacts the leverage and liquidity position, could adversely affect the company’s credit profile and will remain a key monitorable.

Liquidity position: Adequate

Given the healthy profit margins and low leverage, ICRA expects the cash flows to be sufficient to meet the company’s debt obligations and regular capex outflow. MGCPL reported free cash and equivalents of Rs. 5.3 crore as on March 31, 2023, and a buffer of Rs. 24 crore in its fund-based working capital limits as of March 2023, which provide comfort. Additionally, MGCPL has undrawn mobilisation advances against its existing order book that can be availed against bank guarantees if need arises.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a significant improvement in its scale of operations, supported by healthy order accretion, with improvement in working capital intensity while maintaining the profitability and credit metrics.

Negative factors – Negative pressure on the rating could arise in case of a slowdown in execution or fresh order inflow, or inability to improve working capital intensity or any deterioration profit margins resulting in significant deterioration in credit metrics. Further, larger-than-estimated investments in build operate transfer (BOT) projects/Group companies impacting the financial profile could exert pressure on the rating. The rating may be revised downwards if TOL/TNW increases to over 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of MGCPL and its subsidiaries. ICRA has fully consolidated MGPPL as MGCPL has extended corporate guarantee for the debt of this subsidiary. ICRA has done limited consolidation for the SPV – MGBPL, as no CGs have been issued/proposed for this SPV/subsidiary.

About the company

M.G. Contractors Pvt. Ltd. (MGCPL) was initially established as a partnership firm in 1989 as M.G. Associates, which was later reconstituted as a private limited company in 1998. It is engaged in the construction, upgradation and maintenance of roads, including national highways, state highways and rural roads. The company undertakes construction of minor bridges over railways and mass earthwork. It has more than 30 years of experience and has executed many construction projects in multiple states.

Key financial indicators (audited)

Consolidated (MGCPL & MGPPL)	FY2022	FY2023*
Operating income	954.0	1,045.0
PAT	100.8	95.8
OPBDIT/OI	16.6%	16.6%
PAT/OI	10.6%	9.2%
Total outside liabilities/Tangible net worth (times)	0.48	0.84
Total debt/OPBDIT (times)**	0.46	1.54
Interest coverage (times)	13.1	8.6

Source: ICRA Research, MGCPL; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional data; **Total debt/OPBDIT at MGCPL (standalone) stands at 0.26 and 0.73 times for FY2022 and FY2023 respectively.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 11, 2023	July 15, 2022	Jun 11, 2021	Jul 3, 2020
1 Fund-based – Cash credit	Long-term	65.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)
2 Non-fund based – Bank guarantee	Long-term	815.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)
3 Long-term – Unallocated	Long-term	-	-	-	-	-	[ICRA]A-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Non-fund based – Bank guarantee	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	Fund-based – Cash credit	NA	NA	NA	65.0	[ICRA]A (Stable)
NA	Non-fund based – Bank guarantee	NA	NA	NA	815.0	[ICRA]A (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	MGCPL Ownership	Consolidation Approach
M.G. Contractors Pvt. Ltd.	-	Full Consolidation
MG Petrochem Private Limited	100%	Full Consolidation
M.G. Banshidhar Pvt. Ltd.	100%	Limited Consolidation*

Source: Company data

Note: *Limited consolidation as this is an SPV and no corporate guarantee has been issued/proposed for the term loans raised/ to be raised by the company.

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About ICRA Limited:

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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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