April 26, 2024

MMS Infratech Private Limited: Long-term rating downgraded; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	6.84	14.11	[ICRA]B+(Stable); downgraded from [ICRA]BB-(Stable)
Long-term – Fund-based – Overdraft	17.00	17.00	[ICRA]B+(Stable); downgraded from [ICRA]BB-(Stable)
Short-term – Non-fund Based – Bank guarantee	25.48	25.48	[ICRA]A4; reaffirmed
Long-term/Short -term – Unallocated	8.68	0.00	-
Total	**58.00**	**56.59**	

**Instrument details are provided in Annexure-I*

Rationale

The downward revision in long-term rating factors in the significant decline expected in MMS Infratech Private Limited's (MIPL) revenues in FY2024, resulting in a subdued financial profile. The company's revenue is estimated to reduce to ~Rs. 28 crore in FY2024 from ~Rs. 118 crore in FY2023 as it executed only orders in hand of limited value, without adding any new major orders for a long period. Nevertheless, ICRA notes that in H2 FY2024, the company bagged two large orders worth ~Rs. 275 crore, which are scheduled to be executed over the next 2 years, thus providing some near-term revenue visibility. Given the low revenue base, nominal profits and cash accruals, the debt coverage indicators would remain modest in FY2024. Nonetheless, the financial performance is likely to improve from FY2025 onwards with the execution of recently awarded orders. The ratings continue to be impacted by MIPL's stretched liquidity position owing to sizeable repayment obligations due in FY2024-FY2025 and minimal cushion available in the working capital limits. The average utilisation in the twelve months that ended in January 2024 remained high (over 95%). This would, in turn, limit its business growth to that extent. Further, the ratings are constrained by high geographical and sectoral concentration risks as the company's operations remain concentrated in Gujarat and it is likely to continue operating out of single state only.

Nonetheless, the ratings favourably factor in the experience of its promoters in the civil construction industry and its status as a Class-AA category contractor with the Government of Gujarat. It has a fresh bid book aggregating to ~Rs. 173 crore in pipeline, which is likely to increase going forward. Given the company's track record, its bid conversion performance leading to orders is expected to remain satisfactory. MIPL's ability to improve its order book, timely execution and profitability would remain a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is likely to sustain its operating metrics even as its revenue growth would remain under pressure. Further, the outlook underlines ICRA's expectations that the company's working capital and short-term fund requirements, would be funded in such a manner that MIPL is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Adequate experience of promoters in civil construction industry – MIPL's promoters, Mr. Kantilal Hadiya, and Mr. Madhav Hadiya, have adequate experience in civil construction work involving roads, buildings, railway projects for government entities. MIPL is a government-approved contractor with Class-AA (roads and buildings) certification from the Government of Gujarat.

Credit challenges

Moderate financial risk profile with weak performance in FY2024 – MIPL's operating income is estimated to decline by 76% in FY2024 to Rs. 28 crore owing to execution of only existing orders of low value and no new orders available for execution during the year. In H2 FY2024, the company bagged orders worth ~Rs. 275 crore, which are expected to be executed over the next 12-18 months, thus providing some near-term revenue visibility. The absolute profits are estimated to be impacted in FY2024 by subdued revenues. MIPL's debt coverage indicators remain modest, as reflected in the total debt/OPBDITA of 6.1 times and interest cover of 1.0 times in 11M FY2024. Its working capital intensity remained high (NWC/OI stood at 34% in 11M FY2024) due to high unbilled revenues and elongated receivables.

High sectoral and geographical concentration risks – MIPL faces high sectoral concentration risk as 100% of its outstanding order book as of March 2024 was concentrated towards road construction projects. Further, most of the projects executed by the company in the past, along with the outstanding order book remained concentrated in Gujarat, resulting in high geographical risk.

Vulnerability of profitability to adverse fluctuations in input prices and intense competition – MIPL's margins are susceptible to adverse fluctuations in input prices as majority of its contracts are short term in nature and thus have no provision for a pass-through clause. Further, stiff competition and the fragmented structure of the civil construction industry impact the pricing position and consequently the company's profitability.

Liquidity position: Stretched

MIPL's liquidity remains stretched as the impending debt repayments are expected to remain tightly matched against future accruals. Further, the working capital limits remain nearly fully utilised with no buffer for any urgent requirements. Timely support from promoters through capital infusion/unsecured loans and/or sanction of enhanced working capital lines will be crucial to mitigate any cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade MIPL's ratings if it is able to demonstrate a sustained improvement in its order book, scale and profitability, along with an improvement in liquidity profile.

Negative factors – The ratings may be downgraded if the company witnesses slower execution and/or order inflow, thereby resulting in sustained decline in revenues and/or profits. Further, a stretch in the working capital cycle or large debt-funded capital expenditure may put downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Incorporated in September 2012, MMS Infratech Private Limited (MMS) undertakes civil construction work, mainly comprising of roads, building, railway, and irrigation works for various government and semi government entities. MMS is registered as a contractor in 'AA' class category in Gujarat. The company is based out of Anjar - Kutch (Gujarat).

Key financial indicators (audited)

Standalone	FY2022	FY2023	11M FY2024*
Operating income	96.4	117.9	26.4
PAT	0.5	(9.3)	0.2
OPBDIT/OI	5.7%	(4.2%)	12.9%
PAT/OI	0.6%	(7.9%)	0.9%
Total outside liabilities/Tangible net worth (times)	1.4	1.9	1.6
Total debt/OPBDIT (times)	4.2	-4.6	6.1
Interest coverage (times)	1.8	-1.5	1.1

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 26, 2024	-	Feb 28, 2023	Dec 02, 2021
1	**Term loan**	Long term	14.11	14.11	**[ICRA]B+ (Stable)**	-	[ICRA]BB- (Stable)	[ICRA]BB (Stable)
2	**Overdraft**	Long term	17.00	15.29	**[ICRA]B+ (Stable)**	-	[ICRA]BB- (Stable)	[ICRA]BB (Stable)
3	**Bank guarantee**	Short term	25.48	22.28	**[ICRA]A4**	-	[ICRA]A4	[ICRA]A4
4	**Unallocated**	Long term/ Short term	0.00	--	-	-	[ICRA]BB- (Stable)/ [ICRA]A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Overdraft	Simple
Short-term – 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	Term loan	FY2019	-	FY2027	14.11	[ICRA]B+ (Stable)
NA	Overdraft	-	-	-	17.00	[ICRA]B+ (Stable)
NA	Bank guarantee	-	-	-	25.48	[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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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.

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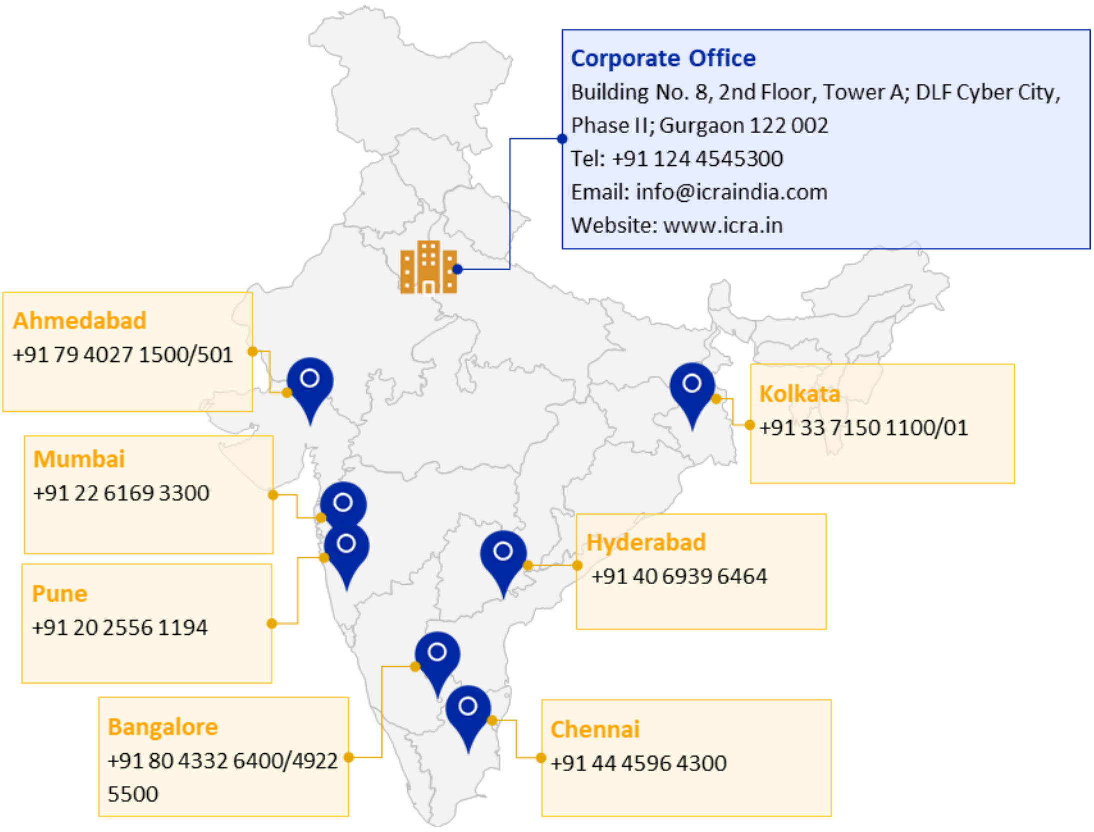

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