October 07, 2024

M.G. Contractors Pvt. Ltd.: Ratings reaffirmed

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	815.00	815.00	[ICRA]A (Stable); reaffirmed
Total	**880.00**	**880.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for M.G. Contractors Pvt. Ltd. (MGCPL) factors in its comfortable financial risk profile, reflected in a moderate leverage (total outside liabilities to tangible net worth (consolidated TOL/TNW) of 0.8 times) and comfortable coverage metrics (consolidated interest cover of ~6.7 times as on March 31, 2024), which are expected to sustain over the medium term. 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, resulting in low counterparty risk.

MGCPL witnessed a healthy 54% year-on year (YoY) growth in its operating income (OI) to Rs. 1,613.8 crore with operating profitability at 14.0% in FY2024, driven by ramp-up in the pace of execution of the outstanding order book under engineering, procurement, and construction (EPC) and hybrid annuity model (HAM) mode coupled with stabilisation of operations in its ethanol subsidiary – M.G. Petrochem Private Limited (MGPPL). However, MGCPL (standalone) order book (OB) moderated to Rs. 1,950 crore as on August 31, 2024 (order book-to-OI of ~1.5 times based on OI of FY2024 Vs. 2.4x times on OB outstanding in March 31, 2023) on account of lower bidding (by MGCPL due to stiff competition) and awarding activity in Q1 FY2025 on account of the General elections. While the OB remains comfortable for FY2025, medium term revenue visibility for the EPC business is contingent upon healthy order inflows over the remaining year. MGCPL has no pending equity commitments in its on-going HAM and any additional equity funding requirements (depending on new BOT order inflows) are expected to be met with internal accruals or in a manner that the capitalisation levels remain comfortable.

The rating remains constrained by the company's relatively moderate scale of operations, and execution risk with about 36% of the orders in hand in the early stage of execution (<10% execution). ICRA, however, draws comfort from its track record in the EPC business and successful completion of projects within time and budget. The current order-book provides limited revenue visibility over next 18-24 months, and company's revenue could come under pressure in the medium term, if the company is unable to materially improve its order-book. The rating factor's in MGCPL's investment in non-core business (ethanol plant under MGPPL rated [ICRA]A(CE)(Stable) and [ICRA]BBB(Stable)) having a different risk profile, and project stabilisation risks therein. Given the corporate guarantees (CGs) extended to the subsidiary (for ~Rs. 226 crore debt), the consolidated leverage (TOL/TNW) stands moderated to some extent. While ICRA takes comfort from the operationalisation of the plant in July 2023 and MGPPL reported operating margin of 6.7% in FY2024, a track record of profitable operations is yet to be demonstrated. The company's ability to achieve healthy capacity utilisation and generate cash accruals will be a key monitorable in the medium term. ICRA has also factored in MGCPL's exposure to one HAM project from the National Highways Authority of India {NHAI, rated [ICRA]AAA(Stable)}, which is being developed under its subsidiary M.G. Banshidhar Pvt. Ltd. (MGBPL; rated [ICRA]A-(Stable)). While the project has achieved 45% physical progress and 100% of equity commitment infused, MGCPL remains exposed to residual project implementation risk. Going forward, MGCPL plans to take up more BOT/HAM projects, which will entail additional equity commitments. Given the increasing scale of operations and equity commitments such projects entail, its ability to judiciously manage its working capital cycle and maintain its liquidity with execution ramp-up remain important from the credit perspective.

The ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and mobilisation advance. Nonetheless, ICRA draws comfort from MGCPL's execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite some YoY moderation in revenues in FY2025 on a standalone basis, MGCPL will strengthen its order book and sustain its comfortable leverage and coverage metrics over the medium term. The outlook underlines ICRA's expectation that its incremental capex and investments will be funded in a manner that it is able to durably maintain its liquidity and debt protection metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in construction industry– 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. Its track record of timely delivery resulting in repeat projects reflects its strong execution capability.

Reputed clientele comprising Government entities mitigates counterparty risk– 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 like National High Speed Rail Corporation Limited (NHSRCL), Bihar State Road Development Corporation, IRCON International, Ministry of Road Transport and Highways of India (MoRTH), NHAI etc. 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 and security advances/deposits from sub-contractors results in moderate the working capital intensity (as reflected in NWC/OI of 22.2% in FY2024 (provisional) and ensures limited reliance on working capital debt.

Comfortable leverage and coverage metrics – MGCPL's financial profile remains supported by steady execution, healthy profitability and low reliance on debt. The healthy profit margins and accruals are driven by the prudent project bidding, use of owned equipment, captive steel plates manufacturing unit and undertaking relatively higher complexity projects involving structures and bridges. Further, presence of price escalation clauses in most of the outstanding contracts in the OB reduces exposure to raw material price volatility to an extent. In FY2024, the company reported a healthy revenue growth (54% YoY) even as operating margins moderated marginally – to 14.0% FY2024 vs 16.3% in FY2023 – on account of MGPPL teething issues. The company maintained comfortable leverage (TOL/TNW of 0.8 times) and debt protection metrics (interest coverage at 6.7 times and TD/OPBDITA at 1.4 times) as on March 31, 2024 and the same are expected to sustain at comfortable levels in FY2025, supported by steady scale of operations and margins, moderate debt levels and stable working capital cycle.

Credit challenges

Moderate orderbook providing limited revenue visibility, concentrated order book and exposed to execution risk – Due to muted order addition in Q1FY2025 owing to model code of conduct and general election, MGCPL (standalone) OB moderated to Rs. 1,950 crore as on August 31, 2024 (order book-to-OI of ~1.5 times based on OI of FY2024) which constrains medium term revenue visibility. 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, the company's ability to successfully build-up its OB to sustain its scale of operations and profitability will be a key monitorable. The company remains exposed to concentration risk with top five projects contributing 77% and top three clients contributing 69% of the order book as on August 31, 2024. Moreover, it remains exposed to execution risk with 36% of the projects at a nascent stage with less than 10% execution as on August 31, 2024. Notwithstanding the same, its track record in the EPC business, repeat orders from clients and successful completion of projects within time, mitigates these risks to some extent.

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 and unsecured loans aggregating ~Rs. 116 crore (as on March 31, 2024) and has extended corporate guarantee for entire borrowings availed by MGPPL (~Rs. 226 crore). Given that this project has a different risk profile, is yet to demonstrate an established track record of profitable operations and has sizeable repayment obligations starting FY2025, funding support from MGCPL could be required. Due to these factors, ICRA in its assessment has consolidated the financials of MGPPL with MCGPL. MGCPL is also undertaking a HAM project and while the same is running on schedule (achieved 45% physical progress) and 100% of equity commitment has been infused, MGCPL remains exposed to project implementation risk. ICRA notes that going forward MGCPL plans to take up more BOT/HAM projects. Any significant increase in equity commitment due to addition of new BOT/HAM projects may impact the liquidity and coverage metrics and thus would remain a key monitorable.

Risks associated with construction sector including sizeable non-fund-based exposure – MGCPL is exposed to the cyclicality inherent in the construction industry and intense competition in the tender based contract award system, resulting in the risk of volatility in order inflows, revenues, and pressure on profit margins. However, its long presence and established relationship with clients, coupled with presence of price escalation clauses in most of the projects provides comfort. As inherent to the construction industry, it is exposed to sizeable contingent liabilities in the form of bank guarantees (o/s BGs of ~Rs. 606 crore as on March 31, 2024), 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 invocation of guarantees in the past.

Liquidity position: Adequate

MGCPL's liquidity is expected to remain adequate, given the expectation of healthy accruals supported by a steady working capital cycle, free cash and equivalents of ~Rs. 30 crore and a buffer of ~Rs. 37 crore in its fund-based working capital limits and ~Rs. 209 crore on non-fund based bank guarantee limits as on March 31, 2024. The company has debt repayment of ~Rs. 45 crore and capex plans of around Rs. 75-85 crore in FY2025. The estimated cash flows from operations and available liquidity is likely to be sufficient for meeting its financial obligations.

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 coverage 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 Construction
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 entire debt of this subsidiary. ICRA has done limited consolidation for the HAM SPV – MGBPL - factoring in the expected funding requirements (equity/ cost over-run support/ operational shortfall) – as no corporate guarantee has been/is proposed to be extended.

About the company

M.G. Contractors Pvt. Ltd. (MGCPL) was originally established as M.G. Associates, a partnership firm in 1989, and 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. It is registered as a 'Class 1' Government contractor with the Government of Jharkhand, Bihar, UP, Delhi and J&K.

In the road segment, the company initially undertook projects under the EPC mode. However, over the last two years, it has also secured one developmental project from the NHAI, under the hybrid annuity mode, which is under construction. MGCPL has also set up and is operating a grain-based distillery for manufacturing ethanol in Panchkula (Haryana), under its wholly-owned subsidiary – M G Petrochem Private Limited.

Key financial indicators (audited)

Consolidated (MGCPL + MGPPL)	FY2023	FY2024*
Operating income (Rs. Crore)	1,045.9	1,613.8
PAT (Rs. Crore)	95.8	110.9
OPBDIT/OI (%)	16.3%	14.0%
PAT/OI (%)	9.2%	6.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)**	1.7	1.4
Interest coverage (times)	8.0	6.7

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
*** Total debt/OPBDIT at MGCPL standalone stood at 0.7 and 0.6 times respectively for FY2023 and FY2024*

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)	October 7, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long-term	65.0	[ICRA]A (Stable)	Aug 11, 2023	[ICRA]A (Stable)	July 15, 2022	[ICRA]A (Stable)	Jun 11, 2021	[ICRA]A (Stable)
Non-fund based – Bank guarantee	Long-term	815.00	[ICRA]A (Stable)	Aug 11, 2023	[ICRA]A (Stable)	July 15, 2022	[ICRA]A (Stable)	Jun 11, 2021	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-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	**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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