

July 30, 2021

## Mahalakshmi Infraprojects Private Limited: Ratings assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund based/CC	30.00	[ICRA]BBB(Stable) assigned
Short term Non-fund based	220.00	[ICRA]A3+ assigned
<b>Total</b>	<b>250.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings favourably factor in Mahalakshmi Infraprojects Private Limited's (MIPL) long experience in executing irrigation projects in Maharashtra, its sizeable order book position of Rs. 3,068 crore as on March 31, 2021, which provides medium-term revenue visibility. The ratings factor in its reputed clientele comprising public sector entities such as Municipal Corporation of Greater Mumbai (MCGM) and entities under the Water Resources Department, Government of Maharashtra (GoMWRD). The ratings derive comfort from the company's healthy financial risk profile marked by healthy operating profitability, low leverage with no external borrowings, Total Outside Liabilities/Tangible Net worth (TOL/TNW) of 0.5 times as on March 31, 2021, and strong liquidity position.

The ratings are, however, constrained by the company's moderate scale of operations in comparison to its pending order book, which will require significant execution ramp-up for timely completion of the orders-in-hand. MIPL is exposed to execution risks as majority of orders in the order book is yet to start/in early stage of execution. It is also exposed to high geographical, segmental and project concentration risks. The ratings are constrained by the lack of adequate non-fund based bank facilities, which are crucial for construction companies as they have to furnish bank guarantees to clients. In absence of sanctioned facilities, MIPL has provided 100% margin (in the form of fixed deposits) for bank guarantees (BG) availed. While the company has applied for these bank facilities, delays in sanction or sanction of lower than requisite amount could entail blocking of sizeable funds towards the security deposits/performance guarantees to be provided for the new projects and impact the company's liquidity position. The ratings also note the sizeable stuck receivables and retention money/security deposits held by clients, which has resulted in high working capital intensity. However, ICRA takes comfort from the strong liquidity available to fund the working capital requirement.

While assigning the ratings, ICRA has also taken note of a recently secured hybrid energy project to be developed on DBFOT (Design, Built, Finance, Operate and Transfer) basis in a SPV promoted by an associate company. This project would entail sizeable equity commitment and financial closure is pending. ICRA is given to understand that MIPL is not planning to infuse equity in this project and will be undertaking only the EPC work. However, till the project SPV achieves financial closure, MIPL being the flagship entity may be required to provide support.

The Stable outlook on the long-term rating reflects ICRA's opinion that MIPL will continue to benefit from its experience in the construction sector, sizeable orders in hand, and its healthy financial profile.

### Key rating drivers and their description

#### Credit strengths

**Long experience of executing irrigation projects** – The company's promoters have around four decades of experience in executing projects in construction sector, with a major focus on irrigation projects. Its experience and track record make MIPL

eligible for bidding in multiple tenders in this segment. However, recently, it has taken up new projects in joint venture with Shapoorji Pallonji and Company Private Limited in the water treatment and power segments.

**Sizeable order book position** – The company has a sizeable order book position of Rs. 3,068 crore as on March 31, 2021, which is ~13 times the revenues of FY2021. While the order book provides revenue visibility along with strong growth potential, it also requires significant scale-up of execution for timely completion. The order book consists of orders from public sector entities such as Municipal Corporation of Greater Mumbai (MCGM) and the Government of Maharashtra, Water Resources Department (GoMWRD).

**Healthy financial risk profile** – The company has healthy financial risk profile driven by its robust operating profitability, low leverage, and strong liquidity position, supported by availability of unencumbered cash and liquid investments. The operating profitability has remained healthy at around 20% during the past two years, despite the decline in revenue as execution remained impacted by the pandemic-induced challenges such as lockdowns, labour migration, etc. The company has no external borrowings, with a strong net worth of Rs. 336 crore, and relatively low total outside liabilities, resulting in low leverage as reflected in TOL/TNW of 0.5 times as on March 31, 2021. This apart, it has a strong liquidity position with unencumbered cash and bank balances of Rs. 230 crore as on March 31, 2021.

### Credit challenges

**Moderate scale of operations and execution risks** – The company's scale of operations remained moderate with revenue of Rs. 333 crore in FY2020 and Rs. 231 crore in FY2021. MIPL has received few large orders in the last one year, which has significantly increased its order book position. The current pending order book of Rs. 3,068 crore is ~13 times its FY2021 operating income, thereby requiring significant scale-up of execution to meet the contractual timelines. As it has received few large orders recently, ~80% of the pending order book is yet-to-start or is in the early execution stage leading to execution risk. It is also exposed to high geographical, segmental and project concentration risks. The project concentration risk in the order book is high with largest order comprising ~50% of total orders in hand. This order of Rs. 1,531 crore (MIPL's share) has been received recently from MCGM for design and build of waste water treatment facility on an EPC basis. The performance guarantee for the project is yet to be submitted, post which the project is expected to commence execution. Given the large size of the order and new segment for MIPL, execution within the budgeted costs as well as timelines and comfortable payment cycle for this project remain crucial for the overall financial risk profile of the company.

**Sizeable non-fund based exposure with 100% cash margin; unavailability of sanctioned bank limits is a constraint** – At present, the company does not have any sanctioned credit facilities (fund-based or non-fund based), as it had surrendered its earlier facilities in March 2021. In absence of sanctioned facilities, MIPL has provided 100% margin (in the form of fixed deposits) for bank guarantees (BG) availed. However, as MIPL had received new orders, its BG requirements had increased and it has again applied for the credit facilities with the bank. In the scenario of lower-than-expected sanction amount or any delays in sanction of these facilities, MIPL would have to provide BG against 100% margin, which would block sizeable funds and in turn impact its liquidity position. Further, like any construction entity, it is exposed to contingent liabilities mainly for contractual performance, earnest money deposit, etc.

**Exposure towards BOT project in group** – MIPL's sister concern (in joint venture with Shapoorji Pallonji and Company Private Limited) had bagged one development project in February 2021 on DBFOT basis recently, which includes development of renewable hybrid energy project facilities of Hydro Electric Power Plant and Floating Solar PV Power Project at Vaitarna Dam in Maharashtra for MCGM. This project will require Rs. 536 crore of investment and is to be developed in an SPV (Vaitarna Solar-Hydro Powergenco Private Limited). The project financing is yet to be finalised and would entail a mix of equity and debt which are yet to be tied-up. ICRA is given to understand that MIPL is not planning to infuse equity in this project and will be undertaking only the EPC work. However, till the project SPV achieves financial closure, MIPL being the flagship entity may be required to provide support.

## Liquidity position: Strong

The company's liquidity is **strong** as reflected by its sizeable unencumbered cash and bank balances and liquid investments of ~ Rs. 230 crore as on March 31, 2021. MIPL does not have any external borrowings at present, however, it has to meet the margin money requirement for non-fund based facilities. The available liquidity, along with the expected cash flows from operations, are likely to be sufficient to meet its margin money requirement over the near to medium term.

### Rating sensitivities

**Positive factors** – The ratings maybe upgraded if there is a significant improvement in its scale of operations, along with diversification of clientele, while maintaining the profitability and liquidity position.

**Negative factors** – The ratings may be downgraded if there is substantial decline in its revenues or profitability, or increase in working capital intensity, or higher-than-expected investments in DBFOT/BOT/HAM projects leading to moderation of credit metrics or liquidity position. The ratings could also come under pressure if MIPL is not able to tie-up adequate non-fund based limits in time or unable to achieve timely financial closure for its DBFOT project resulting in blockage of significant funds.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Construction Entities</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

MIPL was incorporated as a public limited company in December 2000 and reconstituted into a private limited company in May 2019. It is promoted by Mr. Ravindra Shinde, a civil engineer, who has been associated with construction business since 1983. MIPL is a civil construction company, with experience in undertaking irrigation projects in Maharashtra. The company is involved in various civil construction and infrastructure projects, such as earthen, masonry and concrete dams, earth retaining structures, concrete barrages with gates, canals with and without lining, tunnels in soft and hard rock with shafts, power projects in BOT, road project, electro-mechanical projects, turnkey projects on an engineering, procurement and construction (EPC) basis. It has undertaken various types of infrastructure projects across Maharashtra, Telangana and Andhra Pradesh. The company has recently taken up projects in waste water treatment and power segments.

### Key financial indicators (audited)

MIPL Standalone	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	333.1	230.9
PAT (Rs. crore)	47.5	33.5
OPBDIT/OI (%)	19.8%	19.1%
PAT/OI (%)	14.3%	14.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.5
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	66.2	44.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

### Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
<b>CARE</b>	CARE BBB(Stable)/CARE A3; ISSUER NOT COOPERATING	March 30, 2021

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 23, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 30, 2021	-	-	-
1	Long term- Fund based/CC	Long-term	30.0	-	[ICRA]BBB(Stable)	-	-	-
2	Short term Non-fund based	Short-term	220.0	-	[ICRA]A3+	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term- Fund based/CC	Simple
Short term Non-fund based	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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term- Fund based/CC*	*	-	-	30.00	[ICRA]BBB(Stable)
NA	Short-term Non-fund based*	*	-	-	220.00	[ICRA]A3+

*\*Note: the facilities are yet to be sanctioned*

**Source:** Company

#### Annexure-2: 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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For more information, visit [www.icra.in](http://www.icra.in)

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