

July 15, 2022

## M.G. Contractors Pvt. Ltd.: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	65.00	65.00	[ICRA]A (Stable); reaffirmed
Non-fund Based – Working Capital Facilities	780.00	780.00	[ICRA]A (Stable); reaffirmed
<b>Total</b>	<b>845.00</b>	<b>845.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation notes the continued healthy operational and financial risk profile of M.G. Contractors Pvt. Ltd. (MGCPL), driven by its execution track record, adequate order book position, along with robust operating profit margins, and low leverage leading to healthy credit metrics as reflected in TD/OPBDITA<sup>1</sup> of 0.37 times, interest cover of 13.6 times and TOL/TNW<sup>2</sup> of 0.46 times as on March 31, 2022 (consolidated for MGCPL and M G Petrochem Private Limited). It had an order book of Rs. 2,113.5 crore as on March 31, 2022 and subsequently received two orders worth Rs. 1,072.1 crore in Q1 FY2023. The current order book, which is estimated at 3.3 times of its FY2022 operating income (OI), provides medium-term revenue visibility going forward. The rating takes comfort from the moderate working capital intensity and adequate cushion in both fund-based and non-fund based facilities of MGCPL. 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), Dedicated Freight Corridor Corporation of India Limited (DFCCIL), East Central Railway (ECR), 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 current operations, and execution risk with about 80% 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)) having a different risk profile, and project implementation and stabilisation risks. Moreover, considering the corporate guarantees given to the subsidiary (for Rs. 140 crore debt), the consolidated leverage (TOL/TNW) is expected to increase. MGCPL has recently emerged as an L1 bidder in a hybrid annuity mode (HAM) project from NHAI (Concession Agreement executed), and the project will be developed under a special purpose vehicle (SPV) – M.G. Banshidhar Pvt. Ltd. (MGBPL). MGCPL will be infusing equity/unsecured loans of Rs. 86.68 crore. 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. Addition of further HAM projects, which significantly increases equity commitments and impacts leverage and liquidity position, 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 of the company's 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 TD/OPBDITA – Total Debt / Operating Profit before Depreciation, Interest, Tax and Amortisation

2 TOL/TNW – Total Outside Liabilities / Tangible Net Worth

## 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 the company in creating strong execution capabilities with adequate infrastructure and manpower in place. 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.

**Clientele includes Government entities resulting in low 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 NHRCL, DFCCIL, ECR, NHAI, Rail Vikas Nigam Limited (RVNL), Ministry of Road Transport and Highways (MORTH), and Bihar State Road Development Corporation (BSRDC). This is favourably reflected in its low counterparty credit risk. The receivable cycle from its clients remained stable, which along with the availability of funding in the form of mobilisation advances from clients and security advances/deposits from sub-contractors results in moderate working capital intensity (stood at 21% in FY2022) and limited reliance on working capital debt.

**Healthy financial profile and credit metrics** – There has been continued improvement in MGCPL’s financial profile supported by steady execution, healthy profitability and low reliance on debt. 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, 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. With healthy accretion to reserves, MGCPL’s net worth increased to Rs. 561.0 crore as on March 31, 2022 from Rs. 347.4 crore as on March 31, 2020. This along with low borrowings led to steady credit metrics as reflected in TD/OPBDITA of 0.37 times, and TOL/TNW of 0.46 times as on March 31, 2022, vis-à-vis TD/OPBDITA and TOL/TNW of 0.45 times and 0.52 times as on March 31, 2021.

### Credit challenges

**Stiff competition in the sector** – Stiff 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 has taken comfort from the company’s financial flexibility to bid for large projects, which have relatively lower competition. ICRA notes MGCPL’s increased focus on Railways and high-speed rail projects, which should help it 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** – MGCPL’s rating factors in the execution risks, as about 80% of the orders in hand are in the early stages of execution and hence, carry relatively higher risk. Nonetheless, as per the management, the resources have been mobilised with billing either started or expected to start by Q2 FY2023 in most of these projects, which along with MGCPL’s execution track record provides some comfort. 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 has recently taken up a project involving setting up of a grain-based ethanol plant under a subsidiary – MGPPL. MGCPL will be infusing equity/unsecured loans of Rs. 63.4 crore, and has extended corporate guarantee for term loans worth Rs. 140.0 crore being availed by MGPPL. Given these projects have a different risk profile and are prone to project implementation and stabilisation risk, MGCPL will also be exposed to such risks. Moreover, considering the corporate guarantees provided to the subsidiary, the overall consolidated leverage is expected to increase. MGCPL has recently emerged as an L1 bidder in a HAM project from NHAI, and the project will be developed under

a SPV – MGBPL. MGCPL will be infusing equity/unsecured loans of Rs. 86.68 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. Addition of further HAM projects (Concession agreement executed) significantly increasing its equity commitments, while impacting the leverage and liquidity position, will remain a key monitorable.

### Liquidity position: Adequate

Given the healthy profit margins, comfortable working capital intensity and low leverage, ICRA expects the cash flows to be sufficient to meet the company’s debt obligations and regular capex outflow. Further, MGCPL reported free cash and equivalents of Rs. 47.83 crore as on March 31, 2022, and a buffer of Rs. 42 crore in its working capital limits as of March 2022, which provide comfort. It has limited reliance on working capital debt with average utilisation of the sanctioned fund-based facilities at 45% over the 12-month period that ended in March 2022. 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 sustained 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, lower-than-expected fresh order inflow, or deterioration in working capital intensity or 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 also exert pressure on the rating. The rating may also be revised downwards if TOL/TNW increases to over 1.3 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a> <a href="#">Rating Approach - Consolidation</a>
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 MGPPPL 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 subsidiary.

### About the company

MGCPL is a construction contractor with focus on projects in the highway and railways segments. It is involved in the construction of roads (including national highways, state highways and rural roads), bridges, railway line projects across multiple states in the country. MGCPL is promoted by Mr. Kailash Mittal and Mr. Atul Garg, who have over three decades of experience in the construction business. It was initially established as a partnership firm in 1989 and was later re-constituted as a private limited company in 1998.

## Key financial indicators

Consolidated (MGCPL & MGPPL)	FY2021	FY2022*
Operating income (Rs. crore)	1,110.2	953.5
PAT (Rs. crore)	115.2	99.9
OPBDIT/OI	17.0%	17.0%
PAT/OI	10.4%	10.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.5	0.4
Interest coverage (times)	10.7	13.6

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 (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				July 15, 2022	Jun 11, 2021	Jul 3, 2020	Apr 10, 2019	
1 Fund-based – Working Capital Facilities	Long-term	65.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2 Non-fund Based – Working Capital Facilities	Long-term	780.00	-	[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 – Working Capital Facilities	Simple
Non-fund Based – Working Capital Facilities	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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current rating and outlook
NA	Fund-based – Working Capital Facilities	NA	NA	NA	65.0	[ICRA]A (Stable)
NA	Non-fund Based – Working Capital Facilities	NA	NA	NA	780.0	[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	Ownership	Consolidation approach
<b>M.G. Contractors Pvt. Ltd.</b>	-	Full Consolidation
<b>MG Petrochem Private Limited</b>	100%	Full Consolidation
<b>M.G. Banshidhar Pvt. Ltd.</b>	100%	Limited Consolidation*

Source: Company data; ICRA Research

\*Limited consolidation as no corporate guarantee has been issued/proposed for the term loans raised/ to be raised by the company.

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