November 20, 2023

Max Infra (I) Private Limited: Ratings 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 – Working capital facilities	110.00	110.00	[ICRA]A- (Stable); Reaffirmed
Long-term/ Short-term – Non-fund based – Working capital facilities	675.10	800.10	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed/Assigned
Long term – Term loan	33.02	33.02	[ICRA]A- (Stable); Reaffirmed
Total	**818.12**	**943.12**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation favourably factors in Max Infra (I) Private Limited's (MIIL) improved operational risk profile, with projects from the Central Government agencies (such as Rail Vikas Nigam Limited (RVNL) and National Highway Authority of India (NHAI)) accounting for nearly 95% of its revenues in FY2023 (increased from 19% in FY2020) and 93% of the pending order book as on September 30, 2023 (increased from 24% as on March 31, 2020). The share of revenues from these projects is likely to remain high in the medium term. Consequently, the cash conversion cycle is expected to remain low amid monthly billing and timely receipt of payments from the Central Government agencies. The company's revenues grew by 82% in FY2023 to Rs. 1,373.5 crore against Rs. 753.21 crore in FY2022, supported by healthy order book position and execution. Further, it has achieved billings of Rs. 734.52 crore in H1 FY2024 and is estimated to achieve revenues of more than Rs. 1,400 crore in FY2024, driven by a strong order book of Rs. 6,451.9 crore as on September 30, 2023. Although the tunnelling projects constituted around 66% of the order book as on September 30, 2023, MIIL's strong operational track record of around two decades in executing complex tunnelling works for irrigation and railway projects mitigates the risk to an extent.

The ratings are, however, constrained by the moderate coverage indicators with interest coverage of 3.9 times for FY2023 and sizeable equity commitment towards BOT projects, which will keep the overall cash flows under check in the medium term. The company has sizeable equity commitments of Rs. 250 crore over FY2023-FY2026 (of which Rs. 55 crore has been infused as on September 30, 2023). The ratings are constrained by the limited cushion in fund-based limits over the past 6 months due to sizeable funds blocked in working capital, especially in sticky receivable and retention money from the Government of Andhra Pradesh (AP) and Telangana projects. Realisation of the retention money remains crucial to improve its overall liquidity position and support scale up in operations. Given the debt-funded capex and reliance on mobilisation advances, the interest coverage is expected to remain moderate in the near term. ICRA notes the stiff competition in the industry and tendering nature of the business, which constrains its pricing flexibility. The company is exposed to high client concentration risk with RVNL and NHAI together accounting for ~75% of the order book as on September 30, 2023. It also faces execution risk, as ~48% of the order book is in the initial stages of execution (0- 25%) as on September 30, 2023. These orders are largely contributed by the newly awarded projects. Going forward, its ability to significantly ramp-up its operations to complete its projects in a timely manner, without any cost overrun or penalties from customers will be a key rating monitorable.

The Stable outlook reflects ICRA's opinion that MIIL will be able to maintain healthy revenue growth momentum, which along with a steady cash conversion cycle will support its credit profile.

Key rating drivers and their description

Credit strengths

Healthy order book to support revenue growth – MIIL has an order book position of Rs. 6,451.9 crore as on September 30, 2023, with healthy order addition during the past two years. The order book remains comfortable at 4.7 times of FY2023 revenues as on September 30, 2023, providing medium-term revenue visibility.

Central Government projects accounting for major share of revenues; tunnelling projects to support profitability – The revenue share of projects from the Central Government agencies increased to more than 90% over the past three years from 19% in FY2020, driven by healthy execution of RVNL's projects. The Central Government projects account for 93% of the pending order book as on September 30, 2023, which increased from 24% as on March 31, 2020. The revenue share from these projects is expected to remain above 90% and support its liquidity position. The operating margins improved to above 14.5% from FY2020 from 11.5-12% in FY2018 on account of higher revenue share from the tunnelling segment, which is a relatively complex sector and offers higher margins.

Established operational track record with experienced promoters – MIIL has a strong operational track record of around two decades in executing complex tunnelling works for irrigation and railway projects. The tunnelling projects account for ~66% of order book as on September 30, 2023, followed by road projects from NHAI constituting 22% of the outstanding order book.

Credit challenges

Sizeable equity commitments towards BOT-HAM projects – The company has sizeable equity commitment of Rs. 250 crore towards two under-construction HAM projects, wherein it has already infused Rs. 55 crore as on September 30, 2023, with the balance expected to be infused over FY2024-FY2026. The liquidity position is supported by availing mobilisation advances and timely receipt of payments from its key customers, RVNL, during the last two years. Despite this, the liquidity position remained modest, as reflected by the high average utilisation of 90% for the fund-based limits in the past 12 months. MIIL has sizeable funds blocked in working capital, especially in sticky receivable and retention money, which is expected to be released in the near term. This is likely to improve its overall cash flow position. Any incremental exposure to developmental project or inability to correct the working capital cycle could constrain its liquidity and will be a credit negative.

Moderate coverage indicators – The company's financial profile is characterised by moderate interest coverage of 3.9 times in FY2023 and high TOL/TNW of 1.6 times as on March 31, 2023 owing to mobilisation advances and sizeable term debt availed in FY2023 to fund the capex. MIIL has relied on interest-bearing mobilisation advances as well as extended vendor payment terms to support its working capital requirement, which has resulted in a leveraged capital structure with TOL/TNW of 1.6 times. While its interest coverage is expected to be moderate in the near term, the leverage is likely to improve with an increase in operating profit levels on the back of revenue growth.

High client concentration and moderate execution risks – The company faces high client concentration with orders from RVNL accounting for 66% of the unexecuted order book as on September 30, 2023. However, satisfactory progress across all the ongoing projects from RVNL and timely realisation of bills mitigate the risk to an extent. Complex tunnelling projects accounts for a sizeable share of the order book, which are generally prone to time overrun and other execution challenges. Considering ~48% of the order book is in the initial stages of execution (0-25%) as on September 30, 2023, the company's ability to significantly ramp-up its operations remain crucial to complete its projects in a timely manner, without any cost overrun or penalties from customers. It has exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

Liquidity position: Adequate

MIIL's liquidity is adequate with timely receipt of payments from its key customers. The average utilisation of fund-based limits remained high at above 90% in the past 12 months. The company has debt repayment obligations of Rs. 75 crore in FY2024, which can be comfortably met from the estimated cash flow from operations. It has capex plans of Rs. 40-50 crore in FY2024 for purchasing new machinery and will be funded primarily by debt. The crystallisation of long-pending receivables and realisation of retention money in the near term is essential to meet the equity commitments towards HAM projects and to improve its overall liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade MIIL's ratings if the company demonstrates a significant improvement in its liquidity position with a healthy cushion in cash credit limits and if the interest coverage improves to more than 4.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a significant decline in revenues or an increase in the working capital cycle adversely impacting the liquidity position. Moreover, a higher-than-expected increase in equity commitment towards BOT projects, which could materially impact its liquidity position will be a credit negative. Specific credit metrics that could result in a rating downgrade include TOL/TNW greater than 1.8 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 done limited consolidation of HAM special purpose vehicles (SPVs) factoring in the equity commitments and support towards meeting any cash flow mismatches. Refer Annexure II

About the company

Max Infra (I) Private Limited (erstwhile Max Infra (I) Limited) was formed by the merger of Max Infratech (India) Private Limited and Uan Raju Infrastructure Limited (URIL) in November 2009. Max Infratech (India) Private Limited (MIIPL) had worked on projects in areas such as earth dams, masonry dams, barrages, major canal works and open-cast mining works. Incorporated in January 1999, UAN Raju Infrastructure Limited (UANRIL) had worked in earthworks for high embankments deep cut rock excavation as well as rail and road formation tunnels, including large rock excavations and concrete lining bridges viaducts. Uan Max Infra Limited was renamed as Max Infra (I) Limited in April 2012 and later renamed to Max Infra (I) Private Limited on October 10, 2022. The entity has over two decades of expertise in irrigation and tunnel works. The company was promoted by Mr. BVVSN Raju and Dr. Phani Kumar.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income (Rs. crore)	759.6	1378.6
PAT (Rs. crore)	43.4	84.1
OPBDIT/OI (%)	16.5%	14.8%
PAT/OI (%)	5.7%	6.1%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	1.9	1.3
Interest coverage (times)	2.6	3.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Source: Annual report, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					November 20, 2023	November 11, 2022	October 26, 2022	August 27, 2021	May 26, 2020
1	**Cash credit**	Long-term	110.0	NA	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	**Bank guarantee**	Long-term/ Short-term	800.10	NA	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA] BBB+ (Stable)/ [ICRA]A2
3	**Term Loan**	Long-term	33.02	27.27	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
4	**Unallocated**	Long-term	-	NA	-	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA] BBB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term/ Short-term – Bank guarantee	Very Simple
Long-term – Term loan	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term – Fund-based – Working capital facilities**	-	-	-	110.00	[ICRA]A- (Stable)
NA	**Long-term/Short-term – Non-fund based – working capital facilities**	-	-	-	800.10	[ICRA]A- (Stable)/ [ICRA]A2+
NA	**Long-term – Term loan**	FY2021	-	FY2026	33.02	[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
Eastern Ghats Highway Project Pvt. Ltd	50.00%	Limited Consolidation
CUMBUM Expressway Private Limited	100.00%	Limited Consolidation

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6606 9912
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4547 4829
vinay.g@icraindia.co.in

Vamshi Kinnera
+91 40 4547 4829
vamshi.kinnera@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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.

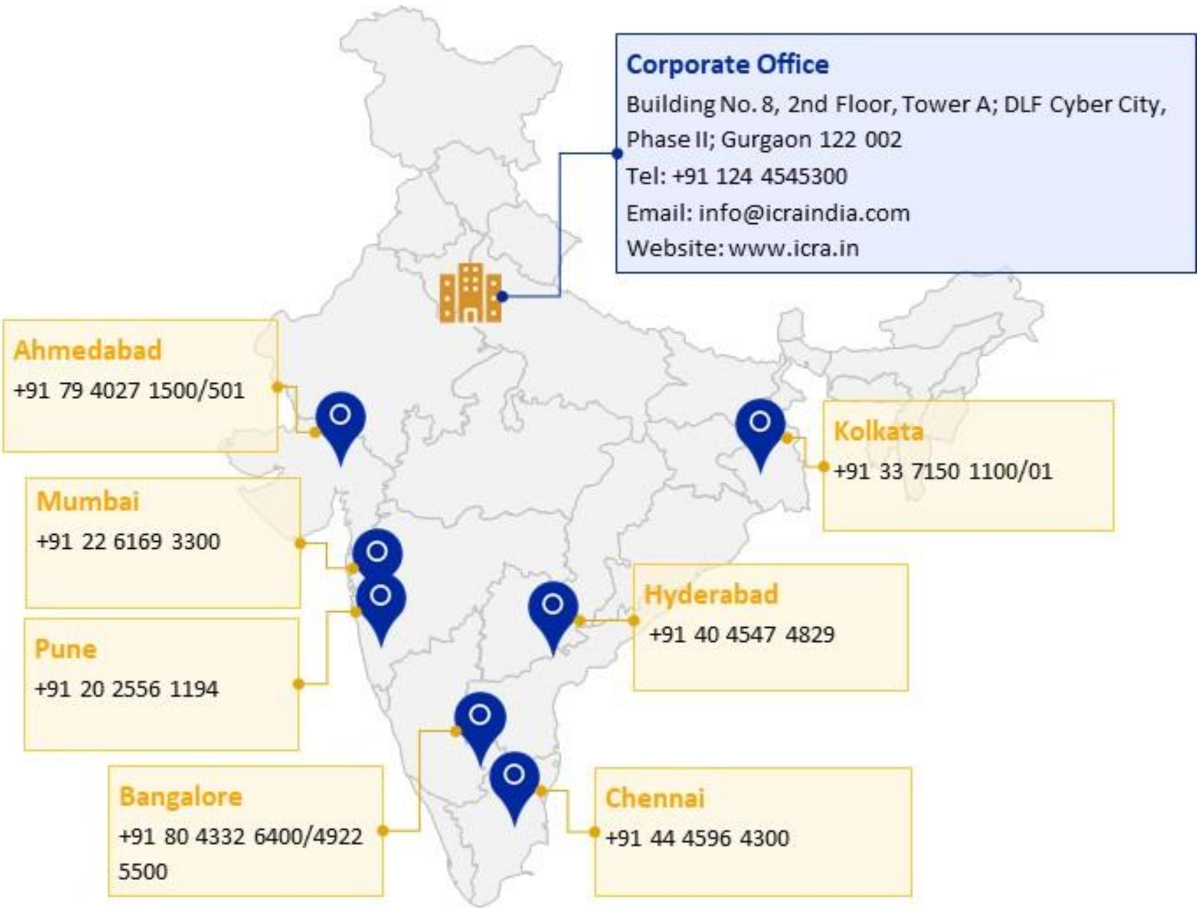
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.