

December 01, 2020

Maloo Constructions (India) Pvt. Ltd.: [ICRA]BB(Stable)/A4; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Overdraft	2.50	[ICRA]BB (Stable); assigned
Short Term/Long Term- Non-Fund based	20.00	[ICRA]BB (Stable)/A4; assigned
Long Term/Short Term- Fund Based/Non-fund Based	7.50	[ICRA]BB (Stable)/A4; assigned
Total	30.00	

Rationale

The assigned rating favourably factors the extensive experience of the promoters of Maloo Constructions (India) Pvt. Ltd. (MCPL) in the construction of water related projects. The rating also factors the healthy order book position with key large orders providing revenue visibility in the near to medium term supported by the company's established relationships with various state government departments. The rating also considers MCPL's comfortable capital structure and coverage indicators supported by moderate profitability and long loan repayment tenor.

The rating is, however, constrained by the company's modest scale of operations which limits operational and pricing flexibility. ICRA also notes MCPL's large debt funded investments in real estate assets and its weak current ratio in FY2020. Further, MCPL's revenue booking in the medium term is dependent on a few orders, which currently are in nascent stages of execution. Moreover, the company is exposed to customer and geographic concentration risks with all projects based in Karnataka. The ratings also factor in the competition from small and large-scale players in the business however, the company's established track record acts as a competitive advantage.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoter in the construction of water related projects – The company is promoted by Mr. Hiralal Maloo, who has extensive experience in the construction of water related projects. In Karnataka His long track record in the industry has enabled the company to establish relationships with state government agencies.

Healthy order book position with key large orders providing revenue visibility – The company has a healthy order book position of Rs 186.3 crore as on November 20, 2020 which is expected to be executed within 24-36 months providing revenue visibility in the near term. The order book largely consists of few key large orders from Karnataka Urban Water Supply and Drainage Board (KUWSDB) and Karnataka Urban Investment and Financial Development Corporation (KUIFDC) and other government entities.

Comfortable debt coverage metrics with moderate profitability and long loan repayment tenor – The company's profitability was moderate with 11.0% at operating level in FY2020. Its debt coverage metrics remained comfortable with DSCR of 3.3 times and interest coverage of 4.1 times in FY2020 (4.1 and 5.0 times, respectively in FY2019) with modest long-term repayment with moderate dependence on working capital limits.

Credit challenges

Modest scale of operations – The company’s scale of operations has been modest with an operating income of ~Rs. 47.8 crore in FY2020 and net worth of Rs 19.2 crore as on March 31, 2020 thereby restricting its operational and financial flexibility.

Concentrated order portfolio – MCPL’s revenue booking in the medium term is dependent on three orders, constituting ~60% of the pending orders and are currently in nascent stages. Given MCPL’s plan to sub contract its orders, the company remains dependent on the performance of the sub-contractor for its execution. However, given the company’s healthy past track record in executing water related projects and timely payments from customers, the execution risk is partly mitigated. The order concentration apart, the company’s business is limited to only Karnataka towards a few government departments.

Competition in the water supply business – The company faces competition in the water infrastructure segment mainly from small as well as large sized construction companies. However, track record and client relationships act as an advantage.

Large debt funded investments in real estate assets- The company has invested in large debt funded real estate assets, particularly in FY2020, for the purpose of offering collateral security for availing non-fund based limits in the near term instead of maintaining cash margins. Moreover, MCPL’s funding position remains supported by high creditor funding as reflected in a weak current ratio which stood at less than 1.0 times in FY2020.

Liquidity position: Stretched

The company’s debt profile as on March 31, 2020 consisted of overdraft limit of Rs 2.5 crore and loan against properties of Rs 17.6 crore. The overdraft limit was highly utilised in September 2020. The funding position is supported by modest receivable realisation cycle and long credit available from subcontractors which results in a weak current ratio. There are no major free cash balances as on March 31, 2020.

Rating sensitivities

Positive triggers – The ratings may be upgraded if there is improvement in revenues with timely completion of projects while maintaining its profitability on a sustained basis. Moreover, improvement in liquidity could also lead to an upgrade in ratings.

Negative triggers – The ratings could be downgraded if there is any delay in completion of the projects leading to decline in profitability. Large debt funded deployment in real estate and elongation in the working capital cycle leading to weakening of the liquidity position could also lead to a downgrade. Specific metric that could lead to a downgrade would be Total Debt/OPBITDA greater than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

Maloo Constructions was started by Mr. Hiralal Maloo as a proprietorship firm in 1993 and mainly focused in executing Military Engineering Services projects (MES) in Hyderabad and Bidar. Later in 2010, the firm diversified into water supply projects and Maloo Constructions (India) Private Limited was incorporated in 2010 which undertakes water supply and underground drainage projects for urban, rural and industrial sectors in Karnataka. The company is also involved in design, execution and commissioning of all components of water supply and sewerage projects. The major components are intake wells, jack wells, pumps, overhead tanks, ground level reservoirs, water treatment plants, pump houses, pipelines of various materials such as PVC, HDPE, MS, etc. with valves and fittings, installation of electric flow meters, road restorations, house service connections, etc. The clientele of the firm includes Karnataka Urban Water Supply and Drainage Board (KUWSDB), Karnataka Industrial Area Development Board (KIADB), Bangalore Water Supply and Sewerage Board (BWSSB), Karnataka Urban Investment and Financial Development Corporation (KUIFDC), Rural drinking water supply department, panchayat raj engineering department, GMR Industries and Embassy Group.

In FY2020, the company reported a net profit of Rs. 2.9 crore on an operating income (OI) of Rs. 47.8 crore compared to a net profit of Rs. 2.3 crore on an OI of Rs. 28.8 crore in the previous fiscal.

Key financial indicators (Audited)

	FY 2019	FY 2020
Operating Income (Rs. Crore)	28.8	47.8
PAT (Rs. Crore)	2.3	2.9
OPBDIT/ OI (%)	13.4%	11.0%
RoCE (%)	62.8%	41.0%
Total Outside Liabilities/ Tangible Net Worth (times)	2.0	1.7
Total Debt/ OPBDIT (times)	11.5%	13.6%
Interest coverage (times)	5.0	4.1
DSCR	4.1	3.3

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
1 Fund Based	Long Term	2.50	-	01-Dec-2020 [ICRA]BB (Stable)	-	-	-
2 Non-Fund Based	Long Term/ Short Term	20.00	-	[ICRA]BB (Stable)/A4	-	-	-
3 Fund Based/Non-Fund Based	Long Term/ Short Term	7.50	-	[ICRA]BB (Stable)/A4	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website 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	Overdraft	NA	NA	NA	2.50	[ICRA]BB (Stable)
NA	Non-Fund Based Limits- Long Term/Short Term	NA	NA	NA	20.00	[ICRA]BB (Stable)/A4
NA	Fund Based/Non-fund Based- Long Term/Short Term	NA	NA	NA	7.50	[ICRA]BB (Stable)/A4

Source: Maloo Constructions (India) Pvt Ltd

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