Modular Concepts LLC Revised

May 08, 2019

Summary of rating action

Instrument*	Current Rated Amount (AED million)	Rating Action
Long-term / Short-term, Fund-based / Non-fund Based Facilities	200.00	[ICRA]BB (Stable)/[ICRA]A4+; Assigned
Total	**200.00**	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into account the established presence of Modular Concepts LLC (MC or the company) in providing turnkey medical engineering and construction services to the healthcare industry, primarily in the United Arab Emirates (UAE), supported by extensive technical experience of its promoters in the healthcare industry. Coupled with its wide array of turnkey solutions, such established presence of the promoters has aided the company in establishing a strong clientele comprising reputed healthcare players. The ratings also factor in the company's moderate operating profitability and the short duration of its projects with average execution time of a year, which have resulted in healthy return indicators. The closing order book position of MC as on December 31, 2018 was moderate at AED 218.7 million (0.6 time CY2018 revenues), providing revenue visibility for the near term.

The ratings are, however, constrained by the working capital-intensive nature of the business, owing to high credit period advanced and funds withheld as retention money by the clients. Moreover, the company is required to maintain margin money with the banks amounting to ~10% of the fund-based / non-fund based limits utilised by the company. MC also has faces a high customer concentration risk, with its top customer accounting for more than 80% of its revenues in CY2018. Furthermore, with its presence only in the healthcare industry, primarily in the UAE, MC also faces end-user industry concentration as well as geographical concentration risks, with its revenue growth highly dependent on the fresh investments in the healthcare industry in the UAE. ICRA further notes the susceptibility of MC's profitability to volatility in raw material prices, given the fixed-price nature of its contracts, although the risk is mitigated, to some extent, due to the short duration of its projects. The competitive bidding for securing projects also limits its pricing flexibility, consequently restricting the expansion of profit margins.

Going forward, the company's ability to consistently secure and execute projects in a timely manner, while efficiently managing its working capital requirements, remains critical from a credit perspective.

Outlook: Stable

ICRA expects MC to benefit from the extensive experience of its promoters in the healthcare sector. The outlook may be revised to Positive if a substantial growth in revenues and profitability, along with better working capital management, strengthens the financial risk profile of the company. The outlook may be revised to Negative if lower than expected revenues and cash accruals, or if any major capital expenditure, increase in advances, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Established presence in turnkey medical engineering; offers wide array of solutions - MC has been providing medical engineering services since CY2005. Over the years, it has evolved into a fully-integrated turnkey solution provider, delivering tailormade solutions for the diverse needs of its clients in the healthcare industry, primarily in the UAE. Coupled with the extensive technical experience of the promoters in the healthcare industry, this has enabled the company to establish a strong clientele comprising reputed healthcare players.

Financial risk profile characterised by healthy return indicators, comfortable leverage and moderate coverage indicators - MC's moderate operating profitability and the short duration of its projects with average execution time of a year has resulted in healthy return indicators as reflected in return on capital employed (RoCE) of ~20% in CY2018. Nonetheless, the gradual dip in operating profit margins from CY2016 on account of competitive pricing to secure more orders, has resulted in some moderation in the debt servicing indicators of the company. With no major capital expenditure over the past two fiscals, the increase in debt as on December 31, 2018 is primarily attributable to the increase in MC's scale of operations, which is also reflected in a stable gearing of 1.2 times and TD/OPBDITA of 3.2 times over the past two fiscals.

Credit challenges

High working capital intensity of operations, primarily due to elongated receivables - The working capital intensity of the company remains high, as indicated by net working capital/operating income (NWC/OI) of 41.4% as on December 31, 2018. This is primarily on account of high credit terms advanced and funds withheld as retention money by the clients. Moreover, the company is required to maintain margin money with the banks, amounting to ~10% of the fund-based / non-fund based limits utilised by the company.

High client, sectoral and geographical concentration risks - The company's client concentration risk remains high, with its top customer accounting for more than 80% of its revenues in CY2018. One of the employees of this client is also a director and shareholder in MC, and this relationship has entailed healthy inflow of orders from the client. Furthermore, currently company only caters to the healthcare industry, primarily in the UAE, and thereby, is exposed to sectoral and geographical concentration risks.

Vulnerability of profitability to adverse changes in raw material prices due to fixed-price nature of contracts - The major inputs for the company are medical equipment and building materials, including mild steel (MS) plates, MS pipes, copper pipes, lead sheets, etc. The key raw materials are sourced locally as well as imported from the US and Europe. Considering the fixed-price nature of its projects, MC's profitability remains vulnerable to the fluctuations in the input prices.

Liquidity position

MC's total debt as on December 31, 2018 comprised vehicle term of AED 0.6 million, short-term working capital debt of AED 96.9 million and unsecured funds of AED 10.3 million availed from a related party. In addition, the company has availed a term loan of ~AED 25 million during the current year for the acquisition of a labour camp building in Dubai and has proposed a loan of ~AED 14 million to be availed for the establishment of a new office premise in Dubai. Thus, the company is expected to have debt repayments of ~AED 1.9 million in CY2019 and ~AED 3.8 million in CY2020 and CY2021 each. The average working capital utilisation in CY2018, as a proportion of the total sanctioned limits, including project limits, was at ~33% for fund-based and letter of credit limits, and at ~56% for bank guarantee limits. The company had a free cash and bank balance of ~AED 14.5 million as on December 31, 2018. Besides, the company had a margin money of AED 17.7 million against its working capital facilities as on December 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent / Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the company's standalone financial profile.

About the company

Established in 2005, Modular Concepts LLC provides turnkey medical engineering and construction services to the healthcare industry, primarily in the UAE. The company's offerings include providing turnkey medical engineering solutions (medical equipment and systems), hospital fit-outs (interiors, ceiling, flooring, hygienic coating, radiation protection, refurbishment), mechanical, electrical and plumbing solutions (heating, ventilation and air conditioning, electrical, plumbing), civil (concrete and masonry, metal and wood work) and modular offsite manufacturing services (pre-fab modules and installation).

Key financial indicators (audited)

	CY2017	CY2018
Operating Income (AED million)	204.3	351.8
PAT (AED million)	17.3	24.9
OPBDIT/OI (%)	11.8%	9.5%
RoCE (%)	20.7%	20.1%
Total Debt/TNW (times)	1.2	1.2
Total Debt/OPBDIT (times)	3.2	3.2
Interest Coverage (times)	3.6	4.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (AED million)	Amount Outstanding (AED million)	Date & Rating May 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
						-	-	-
1	Fund-based / Non-Fund Based Facilities	Long-term / Short-term	200.00	-	[ICRA]BB (Stable) / [ICRA]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 (AED million)	Current Rating and Outlook
NA	Long-term / Short-term, Fund-based / Non-Fund Based facilities	NA	NA	NA	200.00	[ICRA]BB (Stable) / [ICRA]A4+

Source: Modular Concepts LLC

Corrigendum:

Rationale dated May 8, 2019 has been corrected with revisions as detailed below:

The table of key financial indicators on page 3 has been revised to correctly denote that the stated amounts of operating income and PAT are in AED million terms instead of Rs. crore.

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About ICRA Limited:

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