



## Press Release

### Milan Road Buildtech LLP

June 22, 2021

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long term bank facilities- Fund based limits	7.00	IVR BBB; Stable (IVR Triple B with Stable Outlook)	Assigned
2.	Short term bank facilities- Non-fund-based limits	18.00	IVR A3+ (IVR A Three Plus)	Assigned
	<b>Total</b>	<b>25.00</b> <b>(Rupees twenty five crores only)</b>		

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The ratings assigned to the above bank facilities of Milan Road Buildtech LLP (MRBL) derives comfort from its experienced management & long track record of the firm in road construction segment with proven project execution capability, high operational efficiency backed by owned majority of fleet of equipment, moderate order book reflecting satisfactory medium-term revenue visibility and government thrust on road infrastructure. The ratings also note its healthy financial performance marked by improvement in total operating income and profitability along with comfortable capital structure and healthy debt protection metrics. However, these rating strengths are partially offset by its operation in a highly fragmented segment with many unorganized players, exposure to concentration risk and susceptibility of its operating margin to volatile input prices.

#### Key Rating Sensitivities:

##### Upward Factor:

- Growth in scale of operations with improvement in profitability and cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in the debt protection metrics with interest coverage ratio improved to more than 5x

##### Downward factor:

- Dip in operating income and/or profitability impacting the debt protection metrics



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- Moderation in the capital structure with deterioration in overall gearing to more than 1x
- Moderation in liquidity position

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Experienced management & long track record of the firm in road construction segment**

MRBL has a track record of more than a decade in the construction sector. The firm is owned by Mr. Alpesh G. Patel and his family members, who each have an experience of over a decade in civil construction work. They are well supported by a team of experienced and qualified professionals.

##### **Proven project execution capability**

Over the past years, the firm has successfully completed many projects across Gujarat and Maharashtra and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

##### **Majority of fleet of equipment is owned by MRBL; leading to operational efficiency**

MRBL has continuously added to its fleet of plant and machinery to complete the orders on time. The firm has a large fleet of owned equipment's including dumpers, tankers, crushers, transit mixers, trailers, DG sets, etc. Owned fleet of equipment's has led to an improvement in operational efficiency for the firm.

##### **Moderate order book reflecting satisfactory medium-term revenue visibility**

The firm has a moderate order book position (Rs. ~341.92 Crore as on March 31, 2021 which is about 1.50 times of its FY21 revenue [Prov.] (i.e. Rs.229.24 crore). The orders are expected to be completed within next two years, indicating a satisfactory medium term revenue visibility.

##### **Healthy financial performance marked by improvement in total operating income and profitability.**

The total operating income of the MRBL grew at CAGR of ~53% over the last three years FY19 Audited - FY21 provisional. Despite lockdown during the last 15 days of March 2020, revenue of MRBL improved by around 104% in FY20 to Rs.198.10 crore and by 15% in FY21



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provisional to Rs.229.24 crore respectively from Rs.98.43 crore in FY19. This improvement is driven by higher orders executed during these years. The EBITDA of the firm improved sharply over the past two years and improved from Rs.8.09 crore in F19 to Rs.21.38 crore in FY21 (Prov.). Further, MRBL's EBITDA margin improved from 8.22% in FY19 to 8.61% in FY20 and then to 9.33% in FY21 provisional due to execution of higher margin contracts coupled with higher absorption of fixed overheads. PAT margin of the firm remained healthy at ~3.5% in FY20 and further improved to 4.12% in FY21 (Prov.).

### **Comfortable capital structure and healthy debt protection metrics**

MRBL has a comfortable capital structure over the years on the back of its satisfactory net worth base (Rs.73.67 crore as on March 31, 2021 (provisional)) and low reliance on external debts. The overall gearing ratio of MRBL remains comfortable and stood at 0.30x on March 31, 2021 (provisional) vis-a-vis 0.29x as on March 31, 2020. Total indebtedness of the MRBL as reflected by the TOL/TNW stood satisfactory at 1.66x as on March 31, 2021 (Prov.). Further, with low reliance on external debt the debt protection metrics of the firm remained healthy over the past three fiscals. The interest coverage remained strong at 3.66x in FY21 (Prov.) and the total debt to GCA also remained comfortable at 3.03 years in FY21 (prov.).

### **Government thrust on road infrastructure**

India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. A total of 200,000 km national highways is expected to be completed by 2022. AIL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

### **Key Rating Weaknesses**

#### **Operation in a highly fragmented segment with many unorganized players.**

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy,



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significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

### **Concentration risk**

MRBL's focus is limited to roads only (including construction, rehabilitation and up-gradation). Hence, there exists sectorial concentration risk. Further, the present order book is geographically skewed towards Gujarat and Maharashtra from various government departments also indicating a geographical concentration risk. However, the firm has adequate experience in order to execute projects in these states which provide comfort.

### **Susceptibility of operating margin to volatile input prices**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the firm is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, the firm has an in-built price variation clause for major raw materials like cement, bitumen & steel in majority of its contracts. Hence MRBL is largely safeguarded from the adverse movement in the raw material prices. However, MRBL is exposed to the risk of timely execution of projects.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Adequate**

The liquidity position of the firm is expected to remain adequate in the near to medium term driven by sufficient cushion in expected accruals in the range of ~Rs.16.40 crore to Rs.18.97 crore as compared to debt repayment obligation in the range of ~Rs.0.66-7.91 crore during FY22-24. Further, with a gearing of 0.30 times as of March 31, 2021 (Prov.), the firm has sufficient gearing headroom. Moreover, the firm has no major near term capex plan, which



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imparts comfort. Besides, its average of maximum bank limit utilisation remained comfortable at ~47% in the last 12 months ended on March 2021 is also indicating an adequate liquidity buffer. The firm also has adequate unutilised non fund based limits to support its operations in the near term.

### About the firm

Milan Buildtech Road LLP (erstwhile Milan Associates ) is based in Nadiad, Gujarat. Earlier, the firm was promoted by Mr Raken Dhirajlal Shah in 1994 and was subsequently sold as a going concern to Mr Alpesh Patel (present managing partner) in 2007. In April 2018, the firm changed its constitution to limited liability partnership. The firm is mainly engaged in road construction and canal/irrigation work for the government departments and semi-government bodies of Gujarat and Maharashtra and is registered as “AA” Class in the R & B department Registration Sp. Category I Road Construction & Sp. Category II Bridge Construction.

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	198.10	229.24
EBITDA	17.05	21.38
PAT	7.18	9.55
Total Debt*	20.33	42.20
Tangible Net worth*	70.31	73.67
EBITDA Margin (%)	8.61	9.33
PAT Margin (%)	3.56	4.12
Overall Gearing Ratio (x)*	0.29	0.57

\*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	7.00	IVR BBB; Stable	-	-	-





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2.	Bank Guarantee	Short Term	18.00	IVR A3+	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

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### Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Fund based Limits	-	-	-	7.00	IVR BBB; Stable
Short term Non-Fund based Limits	-	-	-	18.00	IVR A3+

**Annexure 2: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/LEN-mrbl-22-6-21.pdf>

