Press Release

Milan Road Buildtech LLP (MRBL)

January 19, 2024

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	113.97 (Enhanced from Rs.63.00 crore)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Proposed Long term Bank Facilities	33.20 (Reduced from Rs.51.00 crore)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short term Bank Facilities	131.80 (Enhanced from Rs.29.00 crore)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Proposed Short term Bank Facilities	21.03 (Enhanced from Rs.7.00 crore)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**300.00 (Rupees Three hundred crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation of the ratings assigned to the bank facilities of Milan Road Buildtech LLP (MRBL) considers increased scale of operations in FY23 and HIFY24. The ratings continue to derive comfort from experienced promoter & long track record of the firm in road construction segment, healthy order book reflecting satisfactory medium-term revenue visibility and majority of fleet of equipment being owned by MRBL, leading to operational efficiency. However, these rating strengths remain constrained by moderate capital structure with healthy debt protection metrics, volatile input prices, concentration risks, highly fragmented & competitive nature of the construction sector and partnership nature of the business.

Key Rating Sensitivities:

Upward Factors

- Substantial growth in scale of operations along with improvement in profitability and cash accruals on a sustained basis.
- Sustenance of the TOL/TNW below 1.50x.

Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile.
- Sharp changes in leverage leading to deterioration in debt protection metrics.
- Stretch in the working capital cycle impacting the liquidity of the company.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced Promoter & 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 experience of over a decade in civil construction work. They are well supported by a team of experienced and qualified professionals. Over the past years, the firm has successfully completed many projects across Gujarat and Maharashtra. The repeat orders received from its clientele reflect well on its construction capabilities.

Majority of fleet of equipment is owned by MRBL, leading to operational efficiency.

MRBL has continuously added to its fleet of equipment to complete the orders on time. The firm has a large fleet of owned equipment including dumpers, tankers, crushers, transit mixers, trailers, DG sets, etc. Owned fleet equipment has leads better control on costs and ability to deliver.

Healthy order book reflecting satisfactory medium-term revenue visibility.

The firm has a healthy unexecuted order book position of Rs. 2,463.36 crore as on October 31,2023 which is about 5.90 times of its FY23 revenue. The orders are expected to be completed in the next three to five years, indicating a satisfactory medium-term revenue visibility.

Increased scale of operations in FY23 and H1FY24

There has been a significant improvement in the performance of the firm in terms of growth in revenue. The firm posted revenue of Rs.417.68 crore in FY23, a growth of ~197.45 from Rs.140.42 crore in FY22. However, the firm's EBITDA margin moderated to 9.72% in FY23 as against 10.59% in FY22. PAT margin moderated to 5.45% in FY23 from 7.76% in FY22. The firm has continued to report healthy growth in FY24 and has reported, on an unaudited basis a revenue of Rs.411.28 crore, EBITDA margin of 14.37% and PAT margin of 8.56% in H1FY24.

Key Rating Weaknesses:

Moderate capital structure

MRBL has a moderate capital structure with tangible net worth base of ~Rs.100 crore as on March 31, 2023. Total debt of the firm increased to Rs.95.60 crore as on March 31, 2023, from Rs.46.32 crore as on March 31, 2022. Overall gearing ratio has moderated to 0.95x as on March 31, 2023, vis-à-vis 0.55x as on March 31,2022. TOL/TNW deteriorated to 1.89x as on March 31, 2023, from 0.98x as on March 31, 2022.

The firm’s investment in various projects has increased from Rs.53.76 crore as on March 31, 2022, to Rs.71.49 crore as on March 31, 2023. Hence adjusted overall gearing ratio deteriorated to 3.33x as on March 31, 2023, as against 1.49x as on March 31,2022. TOL/ATNW accordingly deteriorated to 6.58x as on March 31, 2023, as against 2.66x as on March 31, 2022. Further, MRBL has given corporate guarantees worth Rs.216.79 crores as on March 31, 2023, to its SPVs.

Interest coverage ratio was 4.45x as on March 31,2023 as against 2.24x as on March 31,2022 and total debt to GCA remained moderate at 3.55x times as on March 31, 2023, and 3.15x as on March 31,2022.

Volatile input prices

Major raw materials used in civil construction activities are steel and cement which are usually sourced from large players at proximate distances. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the firm are susceptible to fluctuation in raw material prices and/or finished products. However, the firm has been able to shake off the effect of volatility to a certain extent with the help of the inherent cost escalation clause added into the contracts. The firm's EBITDA margin moderated to 9.72% in FY23 as against 10.59% in FY22 on account of rise in the raw material prices. The EBITDA margin for H1FY24 on an unaudited basis was 14.37%

Concentration risk

The present order book is geographically skewed towards Mumbai and major orders are from Mumbai Metropolitan Region Development Authority (62.88%) indicating a geographical as well as client concentration risk. However, the firm has adequate experience in executing projects in the state, which mitigates this risk to some extent.

Highly fragmented & competitive nature of the construction sector

The construction sector is highly fragmented with the presence of many players with varied stature & capabilities. A boom in the infrastructure sector, a few years back, resulted in an increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process can lead to a dent in the margins.

Constitution of the entity

MRBL is a limited liability partnership firm and any significant withdrawals from the capital account by partners could impact on its net worth and hence, the capital structure. This remains one of the key rating monitorable.

Analytical Approach: Standalone approach

Applicable Criteria:

Criteria of Rating Outlook

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition

Liquidity – Adequate

Liquidity position is adequate marked by sufficient cushion expected in accruals in the range of Rs.49.98 crore in FY24, Rs. 64.13 crore in FY25 and Rs.82.55 crore in FY26 vis-à-vis debt repayment obligations of Rs.7.88crore in FY24, Rs.5.00 crore in FY25 and Rs.6.00 crore in FY26. The average working capital utilization is moderate at 74.60% for the last 12 months ended November 2023. The firm had a free cash and bank balance of Rs.32.73 crore as on March 31, 2023.The current ratio was at 1.17x as on March 31,2023.

About the Company:

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 subsequently was sold as a going concern to Mr Alpesh Patel (present managing partner) in 2007. In April 2018, the firm changed its constitution to a 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	31-03-2022	31-03-2023
	(Audited)	**(Audited)**
Total Operating Income	140.42	417.68
EBITDA	14.88	40.62
PAT	11.40	23.19
Total Debt	46.32	95.60
Adjusted Tangible Net-worth	31.19	28.71
Ratios		
EBITDA Margin (%)	10.59	9.72
PAT Margin (%)	7.76	5.45
Overall Gearing Ratio (x)	0.55	0.95

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Date(s) & Rating(s) assigned in 2023-24 (June 07,2023)	Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating		Date(s) & Rating assigned in 2022-23 (August 08,2022)	Date(s) & Rating assigned in 2021-22 (June 22,2021)	Date(s) & Rating assigned in 2020-21
1.	Fund based bank facility- GECL	Long Term	1.97	IVR BBB+/ Stable	-	-	-	-
2.	Fund based bank facility- Cash Credit	Long Term	112.00	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	-
3.	Proposed Fund based bank facility- Cash Credit	Long Term	33.20	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Stable	-	-
4.	Fund based bank facility- Overdraft	Short Term	4.80	IVR A2	IVR A2	-	-	-
5.	Fund based bank facility- Purchase order discounting	Short Term	5.00	IVR A2	-	-	-	
6.	Non-Fund based bank facility- Bank Guarantee	Short Term	122.00	IVR A2	IVR A2	IVR A3+	IVR A3+	-
7.	Proposed Non-Fund based bank facility- Bank Guarantee	Short Term	21.03	IVR A2	IVR A2	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Neha Khan
Tel: (022) 62396023
Email: neha.khan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which help corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility –GECL	-	-	October 30,2026	1.97	IVR BBB+/ Stable
Long Term Fund Based Facility –Cash Credit	-	-	-	112.00	IVR BBB+/ Stable
Long Term Fund Based Facility –Proposed Cash Credit	-	-	-	33.20	IVR BBB+/ Stable
Short Term Fund Based Facility –Overdraft	-	-	-	4.80	IVR A2
Short Term Fund Based Facility –Purchase order discounting	-	-	-	5.00	IVR A2
Short Term Non-Fund Based Facility –Bank Guarantee	-	-	-	122.00	IVR A2

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Short Term Non-Fund Based Facility –Proposed Bank Guarantee	-	-	-	21.03	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-MilanRoad-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 https://www.infomerics.com/.