Milan Road Buildtech LLP (MRBL)

June 07, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term fund based bank facility – Cash Credit	63.00 (Enhanced from 7.00)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating Revised	Simple
Long term fund based bank facility – Proposed Cash Credit	51.00 (Enhanced from 36.00)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Rating Revised	Simple
Short term non fund-based bank facility – Bank Guarantee	29.00 (Reduced from 32.00)	IVR A2 (IVR A Two)	Rating Revised	Simple
Short term non fund-based bank facility – Proposed Bank Guarantee	7.00	IVR A2 (IVR A Two)	Assigned	Simple
Total	**150.00**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating upgrade of Milan Road Buildtech LLP (MRBL) considers significant growth in revenue as well as profitability in FY23, the rating upgrade also considers healthy order book position which is about 4 times of its FY23 revenue indicating a satisfactory medium term revenue visibility.

Further rating continues to derive comfort from experienced management & long track record of the firm in road construction segment, proven project execution capability, majority of fleet of equipment is owned by MRBL, leading to operational efficiency and comfortable capital structure and healthy debt protection metrics. However, these rating strengths remain constrained by volatile input prices, concentration risk and highly fragmented & competitive nature of the construction sector with significant price war.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability and cash accruals on a sustained basis

- Ability to complete pending projects within the completion date.

Downward Factors

- Sharp changes in leverage.
- Decline in profitability and elongation in operating cycle.
- Delay in order execution, which may adversely impact the financial risk profile

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 equipment has led to an improvement in operational efficiency for the firm.

Healthy order book reflecting satisfactory medium-term revenue visibility
The firm has a healthy unexecuted order book position of Rs.~1852 Crore as on March 31, 2023 which is about 4 times of its FY23 revenue (i.e. Rs.424.21 crore). The orders are expected to be completed within next two to three years, indicating a satisfactory medium term revenue visibility.

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 of Rs.117.45 crore as on March 31, 2023 (provisional) and low reliance on external debts. The overall gearing ratio of MRBL remains comfortable and stood at 0.61x on Mar.31, 2023 (provisional) vis-a-vis 0.66x as on March 31, 2022. Total indebtedness of the MRBL as reflected by the TOL/TNW stood satisfactory at 1.37x as on March 31,2023 (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 4.95x in FY23 (Prov.).

Key Rating Weaknesses

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 company are susceptible to fluctuation in raw material prices and/or finished products. However, the company has been able to shake off the effect of volatility to a certain extent with the help of inherent cost escalation clause added into the contracts.

Concentration risk

The present order book is geographically skewed towards Mumbai and major orders are from MMRD indicating a geographical as well as sectorial concentration risk. However, the firm has adequate experience in execute projects which provide comfort.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied stature & 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, significant price cut by few players during the bidding process is a matter of serious concern as the same can dent the margins.

Analytical Approach: Standalone Approach

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria on Rating Outlook

Liquidity – Adequate

The liquidity profile of MRBL is expected to remain adequate marked by its expected satisfactory cash accrual around ~Rs.39 – 70 crore during FY24-FY26 vis a-vis its debt repayment obligations ranging from Rs.5 - 6 crore. Further, on the back of its comfortable capital structure, the firm has adequate gearing headroom. Average working capital utilisation was comfortable at ~42% during last 12 months ending in March 2023, which imparts satisfactory liquidity buffer.

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 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):

INR in Crore

For the year ended/ As on*	31-03-2022 (Audited)	31-03-2023 (Provisional)
Total Operating Income	140.42	424.21
EBITDA	14.88	44.29
PAT	11.40	35.78

Total Debt	55.99	71.89
Tangible Networth	84.95	117.45
EBITDA Margin (%)	10.60	10.44
PAT Margin (%)	7.76	8.38
Overall Gearing Ratio (x)	0.66	0.61

** 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)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 *(August 08, 2022)*	Date(s) & Rating(s) assigned in 2021-22 *(June 22, 2021)*	Date(s) & Rating(s) assigned in 2020-21
1.	Fund based bank facility – Cash Credit	Long Term	63.00	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	-
2.	Fund based bank facility – Proposed Cash Credit	Long Term	51.00	IVR BBB+/ Stable	IVR BBB/ Stable	-	-
3.	Non fund-based bank facility – Bank Guarantee	Short Term	29.00	IVR A2	IVR A3+	IVR A3+	-
4.	Non fund-based bank facility – Proposed Bank Guarantee	Short Term	7.00	IVR A2	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

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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 bank facility – Cash Credit	-	-	-	63.00	IVR BBB+/ Stable

Long term fund based bank facility – Proposed Cash Credit	-	-	-	51.00	IVR BBB+/ Stable
Short term non fund-based bank facility – Bank Guarantee	-	-	-	29.00	IVR A2
Short term non fund-based bank facility – Proposed Bank Guarantee	-	-	-	7.00	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-jun23.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 www.infomerics.com.