



Press Release

Ajit Kumar Swain

October 22, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	11.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	15.00	IVR A3 (IVR A Three)	Assigned
	Total	26.00 (Rs. Twenty-Six crore only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The ratings assigned to the bank facilities of Ajit Kumar Swain (AKS) considers the close operational and financial linkages between AKS and its group company, M S Infraengineers Pvt Ltd (MSI). Infomerics has taken a combined view of these entities referred together as MS Group. The rating takes into account the combined entity's experienced promoters, proven project execution capability, reputed clientele, healthy order book giving visibility to revenue in the near to medium term and its moderate financial risk profile. However, these rating strengths are partially offset by susceptibility of profitability to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector, regional concentration risk and high working capital intensity. The rating also notes AKS's proprietorship nature of constitution.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity
- Improvement in the capital structure with improvement in overall gearing to below 1x
- Increase in diversification in terms of sector and regional presence

Downward Factors:

- Moderation in scale of operations and/or profitability impacting the liquidity profile



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- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x and/or moderation in the debt protection metrics
- Increase in working capital intensity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

Mr. Mahendra Swain, Managing director of MSI, has over four decades of experience in the construction industry. His son Ajit Kumar Swain, proprietor of M/s AKS also has over a decade of experience in the construction industry. The promoters are well assisted by an experienced team of professionals with considerable experience in the construction industry. Further, being in civil construction works since 1976, MSI, has a considerable experience and a proven track record.

- **Proven project execution capability**

MS Group has started its operation from 1976 through MSI and has successfully completed many projects in and around Odisha for various government departments. Thus, the group is enjoying a proven track record. Later, the promoters set up AKS in 2009 to bid separately in government tenders. Both the entities, have successfully completed many projects in and around Odisha for various government departments. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

MS group undertakes infrastructure projects for Public Works Department, Road & Bridge Division, and State Irrigation Department of Government of Odisha. All the projects are funded under Government departments, thus having minimal counterparty default risk.

- **Healthy order book giving visibility to revenue in the medium term**

The MS group on a combined basis has a strong order book position comprising multiple contracts aggregating to ~Rs.719 Crore as on August 31, 2020, (which is about 4.86 times of its FY20 combined revenue (i.e., ~Rs.148 crore) to be executed within next 2-3 years, indicating a satisfactory near to medium term revenue visibility. Within the combined order book, MSI has balance of order of ~Rs.322 crore, and AKS as order book of ~Rs.397 crore as on August 31, 2020.



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- **Moderate financial risk profile**

On a combined basis, the consolidated Total operating income (TOI) of MS group has increased at a CAGR of ~9% with a y-o-y growth of ~ 9% achieved a total operating income of Rs.148.27 crore during FY20 (provisional). The profitability of the MS Group remained comfortable with the EBITDA margin of 13.12% and the PAT Margin of 6.15% in FY20 (prov). During H1FY21, the group has earned a total operating income of ~Rs.67 crore. This apart, the capital structure of the group remained moderately leveraged, marked by below unity Long term debt to equity ratio at 0.46x and Overall gearing ratio at 1.25x as on March 31, 2019. However, both the ratios have improved gradually on the back of repayment of term loan and accretion of profit to reserve. Interest coverage ratio has been satisfactory in the past three accounting period ending on FY20 (Prov.). Current ratio was adequate as on March 31, 2020. Going forward, Infomerics expects that the total operating income of the group will continue to remain moderate.

Key Rating Weaknesses

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts imparts comfort to an extent.

- **Tender driven nature of business in highly fragmented & competitive nature of the construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented 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, 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.

- **Regional concentration risk**



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The MS group is predominantly working in the state of Odisha hence has high degree of geographical concentration. However, long standing experience of the promoters in this segment and in the state of Odisha imparts comfort.

- **High working capital intensity**

Construction business, by its nature, is working capital intensive as a large part of working capital remained blocked in earnest money deposits, margin required for issuance of bank guarantees and retention money. Further, the collection period of the group remained high at 129 days in FY20 (158 days in FY19) due to high debtors outstanding as on the account closing date as large part of the construction works are generally executed in the last quarter of the year. The working capital requirement of the group is mainly funded through credit period availed from its creditors based on its established relationship and through bank borrowings. Further, the group has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of fund-based limit of MS Group on a combined basis was around ~81% for the last 12 months ended September 30, 2019.

Analytical Approach: Consolidated. For arriving at the ratings, INFOMERICS analytical team has combined the financials of M/s Ajit Kumar Swain (AKS) and MS Infraengineers Pvt Ltd.(MSI), commonly referred as MS Group as these entities have a common management team under the same promoter and operational & financial linkages between the entities. The lists of Companies considered for consolidation are given in Annexure 2.

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Adequate

The liquidity profile of MS Group is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.13.28 crore vis a- vis its low debt repayment obligations of ~1.51 crore in FY21. Further, the MS group has no planned capex or availment of long-term debt which imparts comfort. However, the liquidity profile is restricted due to MS Group's working capital-intensive nature of operations marked by long operating cycle.

About the Firm



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AKS, established in 2009 in Cuttack (Odisha) was founded by the one Mr. Ajit Kumar Swain having more than a decade of experience in the construction industry to support the business operations of the Swain family and to participate in Government tenders in civil construction. AKS, initially remained dormant and started its operation from FY15.

The promoters, Swain family started their business operations through a partnership firm lead by one Mr. Mahendra Swain (Father of Mr. Ajit Kumar Swain). Later during 2011, the firm converted to a private limited company and named as M S Infraengineers Pvt Ltd (MSI). The firm participates in Government tenders and engaged in civil construction and canal burrowing works.

Presently, both the entities are engaged in the same line of operations and registered as Special Class Contractor under the Government of Odisha and is under the same management with strong operational and cash flow fungibility. Mr Ajit Kumar Swain, proprietor of AKS, is also one of the promoters-cum-director of MSI.

Financials: Combined

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	136.34	148.27
EBITDA	17.13	19.46
PAT	6.12	9.15
Total Debt	48.57	43.13
Tangible Net worth including quasi equity	25.42	34.59
EBITDA Margin (%)	12.56	13.12
PAT Margin (%)	4.46	6.15
Overall Gearing Ratio (x)	1.91	1.25

*Classification as per Infomerics' standards.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	45.02	46.54
EBITDA	3.97	5.09
PAT	1.17	2.27
Total Debt	14.02	11.92
Tangible Net worth	3.41	5.68
EBITDA Margin (%)	8.81	10.94
PAT Margin (%)	2.59	4.86
Overall Gearing Ratio (x)	4.11	2.10



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**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Issuer Not Cooperating from India Ratings vide its PR dated July 10, 2020 due to non-submission of information by the company.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	11.00	IVR BBB-; Stable Outlook	-	-	-
2.	Bank Guarantee	Short-term	15.00	IVR BBB-; Stable Outlook	-	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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 Limits- Cash Credit	-	-	-	11.00	IVR BBB-; Stable Outlook
Short Term Non-Fund Based Limits –Bank Guarantee	-	-	-	15.00	IVR BBB-; Stable Outlook

Annexure 2

Name of the Company	Combined Approach
M S Infraengineers Pvt Ltd(MSI)	Full Combined
Ajit Kumar Swain (AKS)	Full Combined