Rating Rationale

MK Gupta & Co. (MKGC)

04 Jan 2019

Brickwork Ratings reaffirms the rating for the bank loan facilities aggregating of Rs.13.86 Crs of MK Gupta & Co. (MKGC)

Particulars:

Facility Rated #	Previous (Rs. Crs)	Present (Rs. Crs)	Tenure	Rating History * Mar, 2018	Rating[1]
Fund Based **Cash Credit** **Term Loan**	**4.77** **0.20**	**4.77** **0.09***	**Long Term**	**BWR BB** (Pronounced BWR Double B) **Outlook: Stable**	**BWR BB** (Pronounced as BWR Double B) **Outlook: Stable** ***Reaffirmed***
Non Fund Based **Bank Guarantee**	**9.00**	**9.00**	**Short term**	**BWR A4** (Pronounced BWR A Four)	**BWR A4** (Pronounced BWR A Four) ***Reaffirmed***
Total	**13.97**	**₹13.86 (Rupees Thirteen Crores and Eighty Six Lakhs Only)**			

1 Please refer to BWR website www.brickworkratings.com for definition of the ratings

** Term loan Outstanding as on 14th December,2018.*

Rating: Reaffirmed

Brickwork Ratings reaffirmed the long term rating 'BWR BB' with "Outlook: Stable"and short term rating of 'BWR A4' to the bank loan facilities aggregating of Rs.13.86 Crores of MK Gupta & Co.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the firm upto FY18, projections upto FY20, publicly available information and information/clarifications provided by the firm.

The rating has inter alia factored Promoter's extensive experience of over 3 decades in Civil & Road construction business, long track record of the firm, comfortable financial risk profile, government clientele and healthy order book position. The rating continues to factor the consistent performance of the firm.The rating strengths continue to be partially offset by relatively moderate scale of operations, stiff competition due to low entry barriers, geographic & customer concentration, tender based nature of sourcing of business, time and cost overrun of the projects undertaken and susceptibility to the volatility in raw material prices.

Going forward, ability of the firm to scale up its operations, to improve its profit margins, to strengthen its overall credit profile and to maintain its gearing in an intensely competitive industry will remain the key rating sensitivities.

Rating Outlook: Stable

BWR believes that the business risk profile of MK Gupta & Co. will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Analytical Approach :
For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

<u>Key Rating drivers</u>

<u>Credit Strengths:</u>

Experienced management & long track record of operation: The promoters of the firm have more than three decades of experience in Civil & Road construction business.The Firm has been into operations since 1981 and established a track record in executing infrastructure projects and construction of Roads & Bridges.

Government clientele: MKGC has established healthy relationships with various government departments of West Bengal, Sikkim & Bihar. Key clients include PWD department of West Bengal & Bihar, Indian Railway and west Bengal State Road Development Authority etc.

Comfortable financial risk profile: MKGCs financial profile remained comfortable marked by comfortable net worth, low gearing, healthy debt protection metrics.The networth of the firm stood at Rs.11.59 crore as on 31st March, 2018 as against Rs.9.99 crores as on 31st March,2017. The gearing of the firm stood low at 0.55 times in FY18. The interest coverage ratio (ISCR) and debt service coverage ratio (DSCR) of the firm stood at 3.02 times and 2.71 times respectively in FY18 as compared to 4.73 times and 4.23 times in FY17.

Healthy work order position: The order book position of the firm stood at ~91.00 Crs which need to be executed in next 2 years.

<u>Credit Weaknesses :</u>
Moderate scale of operations: Though the firm was established in 1981, its scale of operations remained moderate with total operating income of Rs.43.62 crore in FY18.

Geographical & Customer concentration: The order-book of the firm is majorly concentrated with work orders from the state of West Bengal & Bihar and mostly from Indian Railway and West Bengal State Road Development Authority.

Project Execution Risk: The Firm remain exposed to the inherent project execution risk associated with Civil Construction Industry.

Low Entry Barriers : Entry barriers in Civil and Infrastructure industry are low on account of limited capital and technology requirements and the firm faces stiff competition from both organized and unorganized players in the industry.

About the Firm

MK Gupta & Co. (MKGC) is a Siliguri, West Bengal based partnership Firm promoted by Mr. Suresh Kumar Gupta, Ms. Anita Gupta, Mr. Bishnu Kumar Gupta, Mr. Nikhil Kumar Gupta and Sarala Gupta in 1981. MKGC is engaged in providing civil construction/infrastructure services in the state of West Bengal, Sikkim & Bihar. The Firm is also engaged road construction, infrastructure development work and civil construction work for Indian Railways. The firm is registered as Class I contractor under PWD West Bengal and majorly into construction of Bridges & Roads.

Firm's Financial Performance:
The Firm has registered total operating income of Rs.43.63 Cr in FY18 as against Rs.47.23 Crs in FY17. Tangible net worth of the firm stood at Rs. 11.59 Cr as on March 31, 2018 compared to Rs. 9.99 Crs as on March 31, 2017. The Firm reported net profit margin of 5.14% and operating profit margin of 7.37 % in FY18.

Parameters	**31-Mar-2016**	**31-Mar-2017**	**31-Mar-2018**
	(Audited)	**(Audited)**	**(Audited)**
Total Operating Income (Rs. Crores)	38.01	47.23	43.62
EBITDA (Rs. Crores)	2.39	2.90	3.22
PAT (Rs. Crores)	1.82	2.47	2.24
Tangible Net Worth (TNW) (Rs. Crores)	9.87	9.99	11.59
Total Debt : TNW (Times)	0.72	0.75	0.55
Current Ratio (Times)	1.84	2.06	2.63

Rating History for the last three years:

<table>
<tr><th rowspan="2">Sl. No.</th><th rowspan="2">Instrument/ Facility</th><th colspan="3">Current Rating (December 2018)</th><th colspan="2">Rating History</th></tr>
<tr><th>Type</th><th>Amount (Rs. Crs)</th><th>Rating</th><th>06 Mar 2018</th><th>24 Oct 2016</th></tr>
<tr><td>1.</td><td>Cash Credit</td><td rowspan="2">Long Term</td><td>4.77</td><td rowspan="2">BWR BB (Outlook: Stable) Reaffirmed</td><td rowspan="2">BWR BB (Outlook - Stable) (Reaffirmed)</td><td rowspan="2">BWR BB (Outlook - Stable) (Assigned)</td></tr>
<tr><td>2.</td><td>Term Loan</td><td>0.09*</td></tr>
<tr><td>3.</td><td>Bank Guarantee</td><td>Short Term</td><td>9.00</td><td>BWR A4 (Reaffirmed)</td><td>BWR A4 Reaffirmed</td><td>BWR A4 (Assigned)</td></tr>
<tr><td colspan="3">Total</td><td colspan="4">₹13.86 (Rupees Thirteen crore and Eighty Six Lakhs Only)</td></tr>
</table>

Hyperlink/Reference to applicable Criteria:

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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