

RATING RATIONALE

7 Dec 2020

M/s Madan Contractors & Company

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹17.50 Crores of M/s Madan Contractors & Company

Particulars:

Facility	Amount (₹ Crs)		Tenure	Previous Rating (Sept, 2019)	Rating Present*
	Previous	Present			
Fund Based Cash Credit Bank Overdraft	5.00 2.50	5.00 2.50	Long Term	BWR B+ (Stable) Reaffirmed	BWR B+ (Stable) Reaffirmed
Non Fund Based Bank Guarantee	10.00	10.00	Short Term	BWR A4 Reaffirmed	BWR A4 Reaffirmed
Total	17.50	17.50	INR SEVENTEEN CRORES AND FIFTY LAKHS ONLY		

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

**Annexure-I provides details of bank wise facilities

RATING ACTION / OUTLOOK

BWR reaffirms the long term ratings and short term ratings to M/s Madan Contractors & Company as BWR B+(Stable)/A4

The rating draws its strength from the Experienced Partners and Moderate Financial Risk Profile. The rating of the firm is constrained by the Low Scale of Operations, risk associated with tender based business, Partnership Constitution and Impact of Covid-19.

KEY RATING DRIVERS

Credit Strengths:

- 1. Strong experience of the partners:** The partners of the firm have experience of more than three decades. Long business experience enables the firm to maintain relationships with the government departments which helps it to get contracts.
- 2. Moderate Financial Risk Profile:** The financial risk profile of the firm is moderate as evidenced by decrease in gearing ratio from 1.83 times in FY19 to 1.57 times as per Prov FY 20. The tangible net worth stood at Rs. 4.99 Cr. as per Prov FY20. The debt protection



metrics of the firm is average with an ISCR at 1.64x and DSCR at 1.16x for the FY 20. The current ratio of the firm is also moderate at 1.50 in FY 20.

Credit risks:

- 1. Low scale of operations:** The scale of operations for the firm is low. Also, for FY19, the firm has recorded a dip in revenue from Rs. 23.21 Crs in FY18 to Rs. 8.3 Crs in FY19. The low scale reduces the company's financial flexibility in the times of stress and deprives it of scale benefits. As per Prov Fy 20, the firm has recorded the net revenue of Rs. 25.24 Cr.
- 2. Risk Associated with Tender Based Business:** As Firm undertakes civil construction contracts for various government departments in Uttar pradesh, it is exposed to inherent risk associated with tender based business such as competitive bidding, cost & time overruns, delayed payments and sudden changes in government policies which could impact the business adversely.
- 3. Partnership Constitution:** Madan Contractors being a partnership firm is exposed to inherent risk associated with capital being withdrawn at a time of personal contingencies and risk of dissolution. During FY 19, the partners withdrew Rs. 2.88 Cr.
- 4. Impact of COVID- 19-** The outbreak of pandemic Coronavirus COVID-19 in the late March 2020 in India has triggered a complete lockdown in the country and across the world. The construction projects have been halted for 2-3 months. This may impact the revenues in the short to medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Going forward, the ability of the firm to improve its scale of operations, profitability margins, overall credit risk profile and efficiently manage its working capital obligations would be the key rating sensitivities.

Positive : The rating outlook may be revised to positive if the firm is able to significantly improve its revenue and profitability.

Negative : The rating may be downgraded if there is a deterioration in financial risk profile including conversion cycle and any other unforeseen factors.



LIQUIDITY POSITION (Adequate)

Cash and cash equivalents are Rs. 3.35 Cr for FY 20. The current ratio of the firm is moderate at 1.50 times and gearing ratio of the firm is also moderate at 1.57 times as per Prov FY 20. Conversion cycle of the firm is on the moderate side with 38 days as per Prov FY20 as compared to 44 days in FY 19. The debt protection metrics is moderate with an ISCR of 1.64 times and DSCR of 1.16 as per Prov FY20. As per the Banker’s Feedback, average cash credit utilisation is around 80-90% .

Therefore, the overall liquidity is Adequate.

COMPANY PROFILE

M/s Madan Contractors and Company Partnership firm was incorporated in January 1986. The firm is based in Muzaffarnagar, Uttar Pradesh. The firm is engaged to work for the state government as a Civil and Electrical contractor.

KEY FINANCIAL INDICATORS (Rs in crores)

Key Parameters	Units	2020	2019
Result Type		Provisional	Audited
Operating Income	₹ Cr	25.24	8.39
EBITDA	₹ Cr	1.32	0.74
PAT	₹ Cr	0.79	0.49
Tangible Net Worth	₹ Cr	4.99	2.47
Total Debt/Tangible Net Worth	Times	1.57	1.83
Current Ratio	Times	1.50	3.37

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: None

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA



RATING HISTORY FOR THE LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Instrument /Facility	Current Rating (2020)			Rating History		
	Type	Amount (₹ Crs)	Rating	12/09/2019	02/07/2018	2017
Fund Based Cash Credit Overdraft	Long Term	5.00 2.50	BWR B+ (Stable) Reaffirmed	BWR B+ (Stable) Reaffirmed	BWR B+ (Stable)	-
Non Fund Based Bank Guarantee	Short Term	10.00	BWR A4 Reaffirmed	BWR A4 Reaffirmed	BWR A4	-
Total		17.50	INR Seventeen Crores and fifty Lakhs Only.			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)

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M/s Madan Contractors & Company
ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab National Bank	Cash Credit	5.00	-	7.50
		Overdraft	2.50		
		Bank Guarantee	-	10.00	10.00
TOTAL					17.50

INR Seventee Crores and fifty lakhs Only

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