Rating Rationale **30 June 2020**

Mega Construction Company

Brickwork Ratings upgrades/reaffirms the ratings for the Bank Loan Facilities of ₹ 13.50 Crs of Mega Construction Company.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (April,2020)	Present
Fund Based SOD	3.00	3.00	Long Term	BWR B (Stable) (Downgrade) Issuer Not Cooperating	BWR B+ (Stable) (Upgrade)
Non-Fund Based Letter of Credit Bank Guarantee	0.50 10.00	0.50 10.00	Short Term	BWR A4 (Reaffirm) Issuer Not Cooperating	BWR A4 (Reaffirm)
Total	13.50	13.50	INR Thirteen Crores and Fifty Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings upgrades the long term ratings from BWR B Stable to BWR B+ Stable and reaffirms the short term ratings at BWR A4 for total facilities of 13.50 Crs of Mega Construction Company.

BWR has essentially relied upon the firm's audited financial results up till FY19, Provisional Statement for 31.3.2020 and publicly available information and clarifications provided by the management.

KEY RATING DRIVERS

The rating has inter-alia, factored experience of the partners in the Civil Construction business for more than two decades, existing work on hand from government projects,, increase in net worth, improved gearing level and ability to meet its debt obligations. However, the ratings are constrained by the dependence on government projects, stretched liquidity, competition from many medium & large players in the industry and working capital intensive nature of operations.

Description of Key Rating Drivers

- **Credit Strengths:**

Experienced Partners :
The partners of the firm has a long standing experience of over 25 years and the firm has an established track record of operating since its inception. The same will help in strengthening their relationship with customers and suppliers.

Moderate Financial Risk Profile :
Firm's financial risk profile is moderate with Tangible Net Worth of Rs. 10.56 crs and gearing ratio (Total Debt/TNW) of 0.60 times in FY19. The debt coverage metrics stand at 2.41 times of ISCR and 1.56 times of DSCR in FY19.

- **Credit Risks:**

Fluctuating revenue:
Fluctuating revenue is due to tender based business model and risk of acquiring government tenders in a competitive scenario.

High competition from many small and medium units in and around the region:
The firm faces high competition from many players in the civil construction industry established in and around the region.

Inherent risk relating to government based work projects:
Government based work contracts involve delays relating to approvals and sanctions from the concerned authorities leading to time and cost overruns.

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 operation, to meet its projected revenue and profitability margin, to maintain its financial risk profile and to manage its working capital efficiently will be the key rating sensitivities.

Positive:

- Consistent growth in operating revenue and net worth of the company.
- Keeping healthy work order in hand.

Negative:

- Stretched liquidity during last quarter of FY20 due to over utilization of the debt obligations
- High competition from many players in the relevant industry.

LIQUIDITY POSITION

Liquidity level of the firm was slightly stretched with over utilisation of OD limit during the last half of FY20. TOD also taken from the bank in june 2020. Current ratio was at 1.49 times for FY19 with receivable days of 26 days. Further, net cash accruals to total debt was at 0.48 times for FY19 as against 0.25 times in FY18.

ABOUT THE FIRM

Mega Construction Company (MCC), a partnership concern was established on 30th July 1994 promoted by Mr. Vijender Reddy and his wife Mrs. T Jyothi. The firm's office is located at Hyderabad, Telangana. The firm executes civil works for various government departments viz. Roads & Bridges, Irrigation & CAD, Panchayat Raj, Irrigation, Tribal Welfare departments and Railways. The firm undertakes only irrigation and road works in Andhra Pradesh and Telangana States.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	**Units**	**FY19**	**FY18**
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Crs	56.84	47.21
EBITDA	₹ Crs	5.50	5.05
PAT	₹ Crs	2.01	1.73
Tangible Net worth	₹ Crs	10.56	9.09
Total Debt/Tangible Net worth	Times	0.60	1.23
Current Ratio	Times	1.49	1.69

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Facility	Current Rating			Rating History		
	Type	Amount (₹ Crs)	Rating	2019	2018	11.08.2017
Fund Based SOD	Long Term	3.00	**BWR B+** (Stable) (Upgrade)	-	-	**BWR BB-** (Stable) (Upgrade)
Non Fund Based Bank Guarantee Letter of Credit	Short Term	10.00 0.50	**BWR A4** (Reaffirm)	-	-	**BWR A4** (Reaffirm)
Total		**13.50**	**INR Thirteen Crores and Fifty Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)- CARE BB-(Stable)/A4 (Issuer Not Cooperating) on March 16,2020 for the bank loan facilities of 13.50.

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**
- **Infrastructure Sector**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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Mega Construction Company

ANNEXURE I

Details of Bank Facilities rated by BWR

Bank	Facilities	Tenure	Amount (Rs. Cr)
Bank of Baroda, Masab Tank Branch, Hyderabad	**Fund Based:** SOD	Long Term	3.00
	Non Fund Based Bank Guarantee Letter of Credit	Short Term	10.00 0.50
Total			**13.50**

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