



Rating Rationale

Merlon Infra Projects Pvt Ltd

28 Nov 2018

Brickwork Ratings assigns BWR BB- (Outlook: Stable)/A4+ for the Bank Loan Facilities of Rs. 7.00 Crore of Merlon Infra Projects Pvt Ltd('MIPPL' or 'the Company').

Particulars

Facilities [#]	Amount (Rs. Crs)		Tenure	Ratings [*]
	Previous	Present		
Fund Based				
Overdraft (OD)	-	3.00	Long Term	BWR BB- (Pronounced as BWR Double B Minus) (Outlook: Stable)
Non Fund Based				
Bank Guarantee (BG)	-	4.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus)
Total	-	7.00 (Rupees Seven Crore Only)		

* Annexure I provides bank wise details of facilities.

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

Ratings Assigned:

Brickwork Ratings assigned ratings of BWR BB- (Outlook: Stable)/A4+ for the Bank Loan Facilities of Rs.7.00 Crore of Melon Infra Projects Pvt Ltd.

Rationale/Description of Key Rating Drivers/Rating Sensitivities:

BWR has essentially relied upon the audited financials upto FY18, projected financials of FY19 and FY20, publicly available information and information/clarifications provided by the company's management.

The ratings draws strength from the experience of the promoter in civil construction projects related to construction of roads and bridges, established relationships with reputed clientele, moderate order book position ensuring revenue visibility upto FY19, moderate capital structure

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and moderate debt service coverage metrics. However, the ratings are constrained by the presence of the company in a highly competitive industry with tender-driven nature of the business, working capital intensive nature of operations, susceptibility to volatile raw material prices and high geographic concentration of the revenue stream.

Going forward, ability of the company to increase its scale of operations, to complete order book position timely, to improve its profitability, to strengthen its overall credit profile and to manage its working capital efficiently would be the key rating sensitivities.

Key Rating drivers

Strengths:

- **Experienced promoters:** The promoters have more than two decades of experience in civil constructions industry, The company has been operational for around six years, which has helped them to understand local market dynamics and establish relationships suppliers.
- **Moderate capital structure and moderate debt service coverage metrics:** Capital structure is moderate with tangible net worth, gearing, adequate interest service coverage ratio and debt service coverage ratio of Rs. 8.61 Crs, 0.71 times, 6.48 times and 2.58 times respectively as on 31st March 2018.
- **Moderate order book position:** Merlon Infra Projects Pvt Ltd (MIPPL) has moderate revenue visibility backed by an order book position of ~ 46 Crs.
- **Efficient working capital management and moderate liquidity:** The cash conversion cycle stood at 1 day in FY18 on account of receivable, inventory and payables days of 2, 0 and 1 respectively. Company's current ratio stood moderate at 2.36 times in FY18.

Constraints:

- **Moderate scale of operations:** Revenue is moderate at around Rs 38.00 Crs for FY18.
- **Susceptibility to volatility in raw material prices:** Revenue and profitability will remain susceptible to fluctuations in raw material prices such as cement, steel and iron etc.
- **High geographic concentration in the revenue stream:** The company generates its revenue mostly from the projects in the State of Telangana.
- **Presence in highly competitive industry and tender- driven nature of business:** The construction industry is highly fragmented with the presence of many organized and unorganized players. Further, the tender - driven nature of business places pressure on the profitability of the company.



Analytical Approach:

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 Outlook: Stable

BWR believes that the **Merlon Infra Projects Pvt Ltd**' business risk profile will be maintained over 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.

About the company

Merlon Infra Projects Pvt Ltd (MIPPL) was incorporated in August 2012, Hyderabad, Telangana. The company undertaking civil construction projects related to construction of roads and bridges. The company is registered with the Government of Telangana Roads and Buildings Department to undertake civil contracts under special class contractor. The registration is valid for five years from the date of registration (from 03-01-2015 to 02-01-2020). MIPPL has an order book position of around Rs. 46 Crs as on November 2018, to be executed in next 9 months. GST levies on infrastructure industry is increased to 12% from 5%. The major suppliers are Hindustan Petroleum Corporation Limited, Bharat Petroleum, Sagar Cements, Penna Cements, Jindal Steels, Sri Venkateswara Diesels.

Mr. Jagga Reddy Banda and Mr. Bhaskar Reddy Tera are the Managing Director and Executive Directors of the company. Mrs. Alivelu Tera, Mr. Kranthi Kumar Banda, Mrs. Vijetha Vadapally are the other Directors of the Company.

Financial Performance

Merlon Infra Projects Pvt Ltd reported a revenue of Rs.38.16 Crs and PAT of Rs.1.92 Crs for FY18 as against revenue of Rs.37.23 Crs and PAT of Rs.1.73 Crs in FY17. Tangible net worth was Rs. 8.61 crore as on 31st March 2018. Total Debt was Rs. 6.11 crore and Current ratio was 2.36 times as on 31st March 2018. ISCR was 6.48 times and DSCR was 2.58 times as on 31st March 2018.

Key financial indicators are furnished in Annexure II

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Rating History for the last three years

Sl. No.	Facilities	Current Ratings (2018)			Ratings History		
		Type	Amount (Rs. Cr)	Ratings	2017	2016	2015
1	Overdraft (OD)	Long Term	3.00	BWR BB- Outlook: Stable	NA	NA	NA
2	Bank Guarantee (BG)	Short Term	4.00	BWR A4+			
Total			Rs. 7.00 (Rupees Seven Crore Only)				

Status of Non Cooperation with other CRA: CRISIL Ratings has migrated its ratings of the bank loan facilities of the company to the Issuer Not Cooperating category on 16th August 2018 in view of insufficient information to conduct a review of the ratings.

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Term](#)

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Annexure I
Merlon Infra Projects Pvt Ltd
Hyderabad, Telangana

Name of the Bank	Facilities	Tenure	Facilities Type	Amount Rated (Rs. Crs)
Bank of Baroda, Tilak Nagar Branch,, Hyderabad, Telangana.	Overdraft	Long Term	Fund Based	3.00
	Bank Guarantee	Short Term	Non Fund Based	4.00
Total				7.00

Annexure II
Financial Indicators

(Rs. Crore)	Units	31 March 2017 (Audited)	31 March 2018 (Audited)
Net Sales	(Rs. Crs)	37.23	38.16
EBITDA	(Rs. Crs)	3.35	3.55
Profit After Tax	(Rs. Crs)	1.73	1.92
Tangible Net Worth	(Rs. Crs)	6.69	8.61
Total Debt: Tangible Net worth	Times	0.82	0.71
Current Ratio	Times	3.79	2.36

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For print and digital media

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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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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