

Michigan Engineers Private Limited: Reaffirmed

| Facilities | Amount (Rs Crore) | Ratings/Outlook |
|-----------------------------|-------------------|------------------------------|
| Cash Credit | 40.00 | SMERA BB/Stable (Reaffirmed) |
| Working Capital Demand Loan | 26.00 | SMERA BB/Stable (Reaffirmed) |
| Bank Guarantee | 110.00 | SMERA A4+ (Reaffirmed) |

SMERA has reaffirmed the long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.176.00 crore bank facilities of Michigan Engineers Private Limited (MEPL). The outlook is '**Stable**'.

The ratings continue to derive comfort from the healthy order book, reputed clientele and moderate financial risk profile. Further, the ratings also derive support from the experienced management. However, the ratings are constrained by the working capital intensive operations, fluctuating revenues and profitability.

Update

The revenues of the company increased to Rs.195.31 crore in FY2015-16 as against Rs.149.58 crore in FY2014-15 on account of healthy execution of orders. The company earned revenues of Rs.38.85 crore (provisional) during the first quarter of FY2016-17.

The company has healthy orders in hand of around Rs.365.28 crore as on June, 2016 of which around 48 per cent will be executed in FY2017 and the balance in FY2018. This is expected to provide healthy revenue visibility in the medium term.

The company has fluctuating operating margins during FY2012-13 to FY2015-16. The margins declined to 13.71 per cent in FY2016 from 16.14 per cent in FY2015 due to project delays that resulted in higher overheads.

The net worth of the company stands healthy at Rs.93.67 crore as on March 31, 2016. The company's gearing stood low at around 0.80 times as on March 31, 2016. The interest coverage ratio stands moderate at around 1.98 times in FY2016.

The company's GCA declined from 452 days in FY2015 to 386 days in FY2016, though it continues at high levels. This is mainly on account of reduction in inventory holding to 220 days in FY2016 from 318 days in FY2015. There has been increase in debtor days to 82 in FY2016 from 37 in FY2015 mainly on account of revised repayment date scheduled by The Municipal Corporation of Greater Mumbai (MCGM), a major customer of MEPL.

Rating Sensitivity Factors

- Scaling up revenues and profitability
- Timely execution of orders
- Efficient working capital management

Outlook – Stable

SMERA believes that MEPL will maintain a 'Stable' outlook over the medium term on account of its experienced management and healthy order book. The outlook may be revised to 'Positive' if the company generates healthy cash flows through successful execution of projects while achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of stretch in the company's liquidity position, delays in project execution or if the company undertakes larger than expected debt funded capex.

About the Company

MEPL, established in 1972 by Dr. Manubhai N Patel (Director) and family is a 51 per cent subsidiary of Patel Engineering Limited. The company is a leading civil engineering company and specialises in trenchless technology. It also undertakes underground civil work related to pipeline rehabilitation, pipe-jacking, pipe-ramming, micro-tunneling, water drainage, sewage projects and other heavy civil work.

For FY2015-16, MEPL reported profit after tax (PAT) of Rs.3.80 crore on operating income of Rs.195.31 crore, as compared to profit after tax (PAT) of Rs.2.11 crore on operating income of Rs.149.58 crore in FY2014-15.

Rating History

| Date | Facilities | Amount (Rs. Crore) | Ratings | | Rating Outlook |
|----------------|--------------------------------|-----------------------|------------------------|-------------------------|----------------|
| | | | Long Term | Short Term | |
| 27 April, 2016 | Cash Credit | 40.00 | SMERA BB (Assigned) | - | Stable |
| | Working Capital Demand Loan | 26.00 | SMERA BB (Assigned) | - | Stable |
| | Bank Guarantee | 110.00 | - | SMERA A4+ (Assigned) | - |

Contacts:

| Analytical | Business Development |
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| Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in | Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in |

ABOUT SMERA

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