

Press Release

Michigan Engineers Private Limited (MEPL)

2 January, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 176.00 Cr.
Long Term Rating	SMERA BB/Stable (Reaffirmed)
Short Term Rating	SMERA A4+(Reaffirmed)

* Refer Annexure for details

Rating Rationale

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**'.

MEPL was established in 1972 by Dr. Manubhai N Patel (Director) and family. Later in 2006, 51 per cent of the shareholding was acquired by Patel Engineering Limited, making MEPL a subsidiary.

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 others. The day-to-day operations are led by Mr. Saurin M Patel (son of Dr. Manubhai N Patel).

Key rating drivers

Strengths

Experienced management: The operations are led by Dr. Manubhai Patel and Mr. Saurin Patel. Dr. Manubhai Patel, is a Civil Engineer and has an experience of over five decades in civil construction. His son, Mr. Saurin Patel, an engineer armed with an MBA has experience of over two decades in a similar industry.

The extensive track record of the company has helped establish long term relations of over four decades with reputed customers including MCGM, Larsen & Turbo, MMRDA and Delhi Jal Board.

SMERA believes that the extensive experience of the promoters is likely to benefit the company in the near to medium term.

Above average financial risk profile: The company has comfortable financial risk profile marked by networth of Rs.99.10 crore as on 31 March, 2017 as against Rs.93.67 crore as on 31 March, 2016. The gearing stood low at 0.67 times as on 31 March, 2017 as against 0.80 times in the previous year. The total debt of Rs.66.44 crore includes long term debt of Rs.1.53 crore, short term debt of Rs.53.58 crore and CPLTD of Rs.11.33 crore. The debt coverage indicators are

comfortable with interest coverage of around 2.14 times and Debt Service Coverage Ratio (DSCR) of 1.39 times in FY2017.

Healthy order book: The company has healthy orders in hand of around Rs.392.93 crore as on 31 March, 2017 of which orders worth Rs.192.13 crore will be executed in FY2018 and Rs.125.55 crore is expected to be completed by FY2019. Thus projecting a healthy revenue visibility of the company in the medium term.

Weaknesses

Fluctuating revenue trend: The company has fluctuating revenue trend during FY2015 to FY2017. The revenue declined to Rs. 172.18 crore in FY2017 compared to 195.31 crore in FY2016 mainly on account of pending approval for the pumping station project. SMERA believes that though the company has medium term revenue visibility, its growth will be impacted by the inherent risk faced in the project based nature of business.

Working capital intensive operations: The company has high GCA of 381 days in FY2017 as against 386 days in FY2016 mainly on account of high inventory holding of 215 days and debtors of 51 days in FY2017. Further, the company has to maintain deposits and retention money with Government entities which also led to high GCA days.

SMERA believes that efficient working capital management will be crucial to the company in maintaining a stable credit profile.

About the Rated Entity – Key Financials

For FY2016-17, MEPL reported net profit after tax (PAT) of Rs.5.45 crore on operating income of Rs.172.18 crore as against net profit after tax (PAT) of Rs.3.80 crore on operating income of Rs.195.31 crore in the previous year.

Any other information: Patel Engineering Private Limited, the holding company of MEPL is under the Scheme for Sustainable Structuring of Stressed Assets (S4A) to recast its debt. The total fund based debt of Rs.2963.48 crore is split into sustainable debt of Rs.1724.00 crore and unsustainable debt of Rs.1239.48 crore. The total non fund debt shall be Rs.3855.00 crore.

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 liquidity position, delays in project execution or if the company undertakes larger than expected debt funded capex.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Status of non-cooperation with previous CRA (if applicable): None

Rating History (Upto last three years):

Date	Name of Instruments	Term	Amount (Rs. Crore)	Ratings/Outlook
01 Nov, 2016	Cash Credit	Long Term	40.00	SMERA BB/Stable (Reaffirmed)
	Working Capital Demand Loan**	Long Term	26.00	SMERA BB/Stable (Reaffirmed)
	Bank Guarantee@	Short Term	110.00	SMERA A4+ (Reaffirmed)
27 Apr, 2016	Cash Credit	Long Term	40.00	SMERA BB/Stable (Assigned)
	Working Capital Demand Loan**	Long Term	26.00	SMERA BB/Stable (Assigned)
	Bank Guarantee@	Short Term	110.00	SMERA A4+ (Assigned)

****Sublimits – Cash Credit of Rs.20.00 crore**

@Sublimits - Financial Bank Guarantee of Rs.15.00 crore, Sight Letter of Credit of Rs.30.00 crore, Usance Letter of Credit of Rs.15.00 crore, Letter of Undertaking for Buyers Credit of Rs.15.00 crore, WCDL of Rs.5.00 crore.

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	40.00	SMERA BB/Stable (Reaffirmed)
Working Capital Demand Loan**	NA	NA	NA	26.00	SMERA BB/Stable (Reaffirmed)
Bank Guarantee@	NA	NA	NA	110.00	SMERA A4+ (Reaffirmed)

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Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in Reema Gangola, Manager – Corporate Ratings, Tel: +91-22-6714 1111 Email: reema.gangola@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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