

## Press Release

### Michigan Engineers Private Limited

November 30, 2018

### Rating Upgraded and Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 176.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB /Stable)
<b>Short Term Rating</b>	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE BB plus**) from **ACUITE BB /Stable** to the Rs. 66.00 crore bank facilities of Michigan Engineers Private Limited. The outlook is '**Stable**'.

Acuité has reaffirmed short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 110.00 crore bank facilities of MICHIGAN ENGINEERS PRIVATE LIMITED. 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, piperamming, 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).

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of Michigan Engineers Private Limited to arrive at the rating.

## 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 them establish long term relations of over four decades with reputed customers including MCGM, Larsen & Turbo, MMRDA and Delhi Jal Board. Acuité believes that the extensive experience of the promoters is likely to benefit the company in the near to medium term.

#### • Healthy Financial Risk Profile

MEPL has a healthy financial risk profile marked by a high net worth, low gearing and healthy debt protection metrics. The net worth of the company stood high at Rs.105.38 crore as on March 31, 2018 as compared to Rs.98.31 crore as on March 31, 2017 on account of healthy accretion of reserves. The total debt of Rs.75.90 crore comprises of Rs.15.74 crore of long term loan from Reliance and Rs.60.16 crore of short term facilities from the banks. MEPL's gearing stood low at 0.71 times as on March 31, 2018 as compared to 0.67 times as on March 31, 2017. The interest coverage ratio stood high at 2.69 times for FY2018 against 2.17 times for FY2017. The TOL/TNW stood at 1.31 times as on March 31, 2018 against 1.48 times as on March 31, 2017. The Net cash accruals stood healthy at Rs.20.18 crore for FY2018 against a debt obligation of Rs.11.17 crore. Acuité believes the company will be able to maintain a healthy financial risk profile in the near to medium term on account of no major debt funded capex.

#### • **Healthy order book**

The company has healthy orders in hand of around Rs.800.00 crore as on 31 March, 2018 which will be executed in the next four years. Orders worth Rs.187.00 crore will be executed in FY2019 and Rs.209.45 crore is expected to be completed by FY2020, thus projecting a healthy revenue visibility of the company in the medium term.

#### • **Improvement in Profitability Margins**

The profitability of MEPL has improved substantially over the years. EBITDA Margin of the company stood at 22.34 per cent for FY2018 against 16.05 per cent for FY2017 and 13.71 per cent for FY2016. The PAT margins also improved to 6.07 per cent for FY2018 from 3.17 per cent for FY2017 and 1.95 per cent for FY2016. The improvement in margins is on account of bidding for projects with better margins

### **Weaknesses**

#### • **Working Capital Intensive Nature of Operations**

MEPL's operations are working capital intensive marked by a high GCA of 359 days for FY2018 against 309 days for FY2017. This is highly dominated by high inventory of 258 days for FY2018 against 216 days for FY2017. The debtor days stood moderate at 59 days for FY2018 against 51 days for FY2017. The high inventory is on account of ~80 per cent of the inventory lying in Work in progress.

#### • **Competitive and fragmented industry**

The company is engaged in construction of various urban underground infrastructures. The particular sector is marked by the presence of several mid to big size domestic as well as international players. The company faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last four decades.

#### • **Geographic Concentration**

MEPL is exposed to geographic concentration risk as the company executes majority of its projects in the city of Mumbai. Out of the total revenue in FY2018, the company earned ~70% of the revenue by executing projects in Mumbai. Further MEPL executes its order for the Municipal Corporation of Greater Mumbai. Any change in the regulatory policies may have an impact on the business of MEPL

### **Outlook: Stable**

ACUITE believes MEPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile, liquidity position or delay in completion of its projects.

### **About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	145.54	172.18	195.31
EBITDA	Rs. Cr.	32.51	27.63	26.78
PAT	Rs. Cr.	8.84	5.45	3.80
EBITDA Margin	(%)	22.34	16.05	13.71
PAT Margin	(%)	6.07	3.17	1.95
ROCE	(%)	14.02	12.99	22.77
Total Debt/Tangible Net Worth	Times	0.71	0.67	0.80
PBDIT/Interest	Times	2.69	2.17	2.00
Total Debt/PBDIT	Times	2.17	2.32	2.78
Gross Current Assets (Days)	Days	360	309	369

### **Status of non-cooperation with previous CRA (if applicable)**

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Jan-2018	Cash Credit	Long Term	INR 40	ACUITE BB / Stable
	Working Capital Demand Loan	Long Term	INR 26	ACUITE BB / Stable
	Bank Guarantee	Short Term	INR 110	ACUITE A4+
01-Nov-2016	Cash Credit	Long Term	INR 40	ACUITE BB / Stable
	Working Capital Demand Loan	Long Term	INR 26	ACUITE BB / Stable
	Bank Guarantee	Short Term	INR 110	ACUITE A4+
27-Apr-2016	Cash Credit	Long Term	INR 40	ACUITE BB / Stable
	Working Capital Demand Loan	Long Term	INR 26	ACUITE BB / Stable
	Bank Guarantee	Short Term	INR 110	ACUITE A4+

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BB+ / Stable
Working capital demand loan (WC DL)	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4+

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### About Acuité Ratings & Research:

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