

Press Release

Michigan Engineers Private Limited

August 28, 2019

Rating Upgraded



| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 176.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable |
| Short Term Rating | ACUITE A3 |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 176.00 crore bank facilities of MICHIGAN ENGINEERS PRIVATE LIMITED (MEPL). The outlook is '**Stable**'.

The rating revision is in view of higher than expected growth in revenues and profitability during FY2019, which is expected to be sustained over near to medium term. Acuite expects that MEPL will be able to exhibit improved operating metrics.

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 it specialises in trenchless technology. It also undertakes underground civil work related to pipeline rehabilitation, pipe-jacking, pipe-ramming, microtunneling, water drainage, sewage projects and others. The day-to-day operations of the company are led by Mr. Saurin M Patel (son of Dr. Manubhai N Patel).

Analytical Approach

Acuite has considered the standalone financial and business risk profile of MEPL. The rating has been notched up for parent support from Patel Engineering Limited (PEL).

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, who is 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 Municipal Corporation of Greater Mumbai (MCGM), Larsen & Turbo, Mumbai Metropolitan Region Development Authority (MMRDA) and Delhi Jal Board.

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

• Healthy financial risk profile

The financial risk profile of MEPL is healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The tangible networth increased to Rs.114.08 crore as on 31 March, 2019 as against Rs.107.11 crore as on 31 March, 2018 on account of accretion to reserves.

The company follows conservative leverage policy as reflected by its peak gearing of 0.80 times as on 31 March, 2019. The gearing has improved to around 0.50 times as on 31 March, 2019 on account of debt repayment and increase in networth. The total debt of Rs. 57.34 crore includes term loans from banks of Rs. 5.98 crore and working capital funds of Rs. 51.37 crore. Debt/EBITDA stood moderate at around 1.81 times in FY2019 (PY: 2.17 times) mainly on account of the decrease in debt levels. Acuite, however, expects the Debt/EBITDA levels to pare down even further on account of expectations of higher execution of pending projects and expansion of operating profit in 2019-20. In FY2019, net cash accruals declined to Rs.16.40 crore as against Rs.20.18 crore in FY2018. The net

cash accruals have declined on account of decline in net profits due to write-off of an exceptional item of Rs.16.99 crore. The moderate profitability coupled with low gearing levels has resulted in average debt protection metrics, with interest coverage ratio (ICR) of 2.35 times (PY: 2.69 times) and NCA/TD of 0.29 times for FY2019. The decline in the ICR was on account of decline in profitability in FY2019 over FY2018.

- **Healthy order book position**

The company has healthy orders in hand of around Rs.692.54 crore as on 31 March, 2019, which will be executed in the next four years. Orders worth Rs.209.45 crore is expected to be completed by FY2020, thus projecting a healthy revenue visibility of the company in the medium term.

Weaknesses

- **Working capital intensive nature of operations**

MEPL's operations are working capital intensive marked by a high GCA of 340 days for FY2019 against 469 days for FY2018. This is highly dominated by high inventory of 189 days for FY2019 against 258 days for FY2018. The high inventory is on account of ~80 per cent of the inventory lying in Work in progress. Further, the other current assets are high and stood at Rs.85.29 crore, which mainly includes retention money and security deposits. The debtor days stood moderate at 41 days for FY2019 against 59 days for FY2018.

- **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 other players in the sectors. Risk becomes 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.

Liquidity Position

MEPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.12.33-20.18 crore during the last four years through 2016-2019, while its maturing debt obligations were in the range of Rs.5.34-11.17 crore over the same period. The cash accruals of the company are estimated to remain healthy during 2020-22. The working capital operations has remained intensive at 340 days in FY2019 (469 days in FY2018). The company maintains unencumbered cash and bank balances of Rs.7.11 crore as on 31 March, 2019. The current ratio of the company stood low at 1.61 times as on 31 March, 2019. The company is not likely to incur capex over the medium term. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual and moderate repayments over the medium term.

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 Parent Company

Incorporated in 1949, Patel Engineering Limited (PEL) has been engaged in the construction of dams, bridges, tunnels, roads, piling works, industrial structures and other kinds of heavy civil engineering works in areas such as hydro, irrigation & water supply, urban infrastructure and transport. PEL has also forayed into development of power, road and real estate projects in the past. The company has a consistent track record in executing complex domestic and international projects. PEL has completed over 84 dams, 33 hydroelectric projects (plus 13 current projects), and 200 km of tunneling projects. As on 31 March, 2019, PEL has an order book position from engineering and construction (EPC) business of Rs. 10,215 Cr.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 199.63 | 145.54 | 172.18 |
| EBITDA | Rs. Cr. | 47.84 | 32.51 | 27.63 |
| PAT | Rs. Cr. | 7.37 | 8.84 | 5.45 |
| EBITDA Margin | (%) | 23.96 | 22.34 | 16.05 |
| PAT Margin | (%) | 3.69 | 6.07 | 3.17 |
| ROCE | (%) | 13.22 | 14.02 | 12.99 |
| Total Debt/Tangible Net Worth | Times | 0.50 | 0.71 | 0.67 |
| PBDIT/Interest | Times | 2.35 | 2.69 | 2.17 |
| Total Debt/PBDIT | Times | 1.81 | 2.17 | 2.32 |
| Gross Current Assets (Days) | Days | 340 | 469 | 380 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-24.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 |
|---------------|---------------------------------|------------|------------------|---|
| 30-Nov-2018 | Cash Credit | Long Term | 40.00 | ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable) |
| | Working Capital Demand Loan | Long Term | 26.00 | ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable) |
| | Bank Guarantee | Short Term | 70.00 | ACUITE A4+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 40.00 | ACUITE A4+ (Reaffirmed) |
| 02-Jan-2018 | Cash Credit | Long Term | 40.00 | ACUITE BB/ Stable (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 26.00 | ACUITE BB/ Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 110.00 | ACUITE A4+ (Reaffirmed) |
| 01-Nov-2016 | Cash Credit | Long Term | 40.00 | ACUITE BB/ Stable (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 26.00 | ACUITE BB/ Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 110.00 | ACUITE A4+ (Reaffirmed) |
| 27-April-2016 | Cash Credit | Long Term | 40.00 | ACUITE BB/ Stable (Assigned) |
| | Working Capital Demand Loan | Long Term | 26.00 | ACUITE BB/ Stable (Assigned) |
| | Bank Guarantee | Short Term | 110.00 | ACUITE A4+ (Assigned) |

***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 BBB-/ Stable (Upgraded from ACUITE BB+/Stable) |
| Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 70.00 | ACUITE A3 (Upgraded from ACUITE A4+) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 40.00 | ACUITE A3 (Upgraded from ACUITE A4+) |

Bank Guarantee of Rs. 70.00 crore includes sub-limit of corporate credit card to the extent of Rs.1.00 crore.

Bank Guarantee of Rs. 40.00 crore includes sub-limit of letter of credit to the extent of Rs.30.00 crore.

Contacts

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About Acuité Ratings & Research:

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