

Press Release

Michigan Engineers Private Limited

November 23, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) 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 it specialises in trenchless technology. MEPL 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

Acuité has considered the standalone business and financial risk profiles of the MEPL to arrive at this 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, 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 among others.

The company has healthy orders in hand of around Rs.826.04 crore as on 31 March, 2020, which will be executed in the next three to four year, thus projecting healthy revenue visibility of the company in the medium term.

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

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.126.79 crore as on 31 March 2020 as against Rs.114.08 crore as on 31 March, 2019 on account of accretion to reserves.

The company follows conservative leverage policy as reflected by its peak gearing of 0.71 times as on 31 March, 2018. The gearing has improved to around 0.45 times as on 31 March, 2020 on account of debt repayment and increase in net worth. The total debt of Rs.57.34 crore as on 31 March 2020 includes term loans from banks of Rs.1.92 crore and working capital funds of Rs.54.73 crore. Debt/EBITDA stood moderate at around 1.61 times in FY2020 (PY: 1.81 times) mainly on account of the decrease in debt levels.

The moderate profitability albeit reduced interest cost has resulted in improvement debt protection metrics, with interest coverage ratio (ICR) of 3.41 times (PY: 2.35 times) and NCA/TD of 0.35 times for FY2020.

Acuite believes that the company will maintain its financial risk profile over near to medium term in the absence of any major debt-funded capex plans.

Weaknesses

• Working capital intensive nature of operations

Despite improvement, MEPL's operations are working capital intensive marked by a high GCA of 312 days for FY2020 as against 340 days for FY2019. This is highly dominated by high inventory of 139 days for FY2020 as against 189 days for FY2019. 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.116.34 crore, which mainly includes retention money and security deposits. The debtor days stood moderate at 24 days for FY2020 against 41 days for FY2019. The average working capital limits utilization was ~80 percent for the past six months ended October 2020.

Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Competitive industry

The company is engaged in the 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 a minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for the last four decades.

Liquidity position: Adequate

MEPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.13.00-19.90 crore during the last four years through 2017- 2020, while its maturing debt obligations were in the range of Rs.0.62-11.17 crore over the same period. The cash accruals of the company are estimated to remain healthy during 2020-22. The working capital operations have marginally improved, however, remained intensive at 312 days in FY2020 (340 days in FY2018). The company maintains unencumbered cash and bank balances of Rs.2.37 crore as on 31 March, 2020. The current ratio of the company stood low at 1.77 times as on 31 March, 2020. 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.

Rating Sensitivities

- Improvement in revenues while maintaining the profitability
- Further elongation in the working capital cycle

Material Covenants

None

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 a 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	221.43	199.63
PAT	Rs. Cr.	12.45	7.37
PAT Margin	(%)	5.62	3.69
Total Debt/Tangible Net Worth	Times	0.45	0.50
PBDIT/Interest	Times	3.41	2.35

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-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Aug-2019	Cash Credit	Long Term	40.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
	Bank Guarantee	Short Term	70.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Upgraded from ACUITE A4+)
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)

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.

***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	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB-/Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 (Reaffirmed)

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.

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About Acuité Ratings & Research:

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