



Press Release
MICHIGAN ENGINEERS PRIVATE LIMITED
February 18, 2022
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	66.00	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	110.00	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	176.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from **ACUITE BBB-** (read as **ACUITE Triple B minus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**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**'.

Rationale for Rating Upgrade

The rating upgrade is on account of the consistent business performance and improved financial risk profile of MEPL. The improvement is on account of greater proportion of higher value added contracts in total sales. MEPL's orderbook stood at Rs. 1397.77 Cr as on December 31, 2021 to be executed over the medium term.

About the Company

MEPL is a Mumbai based company, established in 1972 by Dr. Manubhai N Patel 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. MEPL also undertakes underground civil work related to pipeline rehabilitation, pipe-jacking, pipe-ramming, microtunneling, segment lining, 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 business and financial risk profiles of the MEPL to arrive at this rating

Key Rating Drivers

Strengths

> Experienced management and established track record of operations

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 operating income stood at Rs. 207.45 Cr in FY2021 as against Rs.221.43 Cr in FY2020. In H1FY2022, the Company has generated revenue of Rs.123.78 Cr and is expected to generate ~Rs. 230-235 Cr by the end of the year. The operating profitability improved to 19.10 percent in FY2021 as against 17.81 percent in FY2020. The company has healthy orders in hand of around Rs.1397.77 as on December 31, 2021, which will be executed in the next three to four years, 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 continues to remain healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The tangible networth increased to Rs.142.54 crore as on March 31, 2021 as against Rs.126.79 crore as on March 31, 2020 on account of accretion to reserves. The company follows conservative leverage policy as reflected by its peak gearing of 0.71 times as on March 31, 2018. The gearing has improved to around 0.37 times as on March 31, 2021 as against 0.45 times as on March 31, 2020 on account of debt repayment and increase in net worth. The total debt of Rs.52.23 crore as on March 31, 2021 includes term loans from banks of Rs.6.49 crore and working capital funds of Rs.45.74 crore. Debt/EBITDA stood moderate at around 1.34 times in March 31, 2021 as against 1.61 times as on March 31, 2020. The interest coverage ratio (ICR) stood at 3.72 times in FY2021 as against 3.41 times in FY2020 and NCA/TD stood at 0.45 times for FY2021 as against 0.35 times for FY2020.

Acuite expects the financial risk profile to be healthy over the medium term in the absence of any major debt funded capex plan.

Weaknesses

> **Working capital intensive nature of operations**

MEPL's operations continue to remain working capital intensive, as reflected by Gross Current Asset days of 343 days as March 31, 2021 as against 312 days as on March 31, 2020. The GCA days are dominated by high inventory days of 155 days as on March 31, 2021 as against 139 days as on March 31, 2020. 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.97.62 crore, which majorly includes retention money and security deposits. The debtor days stood moderate at 51 days as on March 31, 2021 against 24 days as on March 31, 2020. The average utilisation for the past twelve months ended January 2022 of its fund based working capital limits ranged between 51-66 percent.

Acuité believes MEPL's ability to restrict further elongation in working capital cycle will be a key rating sensitivity.

> **Competitive industry**

MEPL 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 is operating in this environment for the last four decades.

Rating Sensitivities

- > Ability to improve its scale of operations while maintaining its profitability and capital structure
- > Any further elongation in its working capital cycle

Material covenants

None

Liquidity Position: Adequate

MEPL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.19.83-23.61 crore during the period FY2020-21 while its maturing debt obligations were in the range of Rs.0.62-5.34 crore for the same period. The cash accruals are estimated to be in the range of Rs.33-37 crore during 2022-23 against repayment obligations of Rs.1.11-4.85 crore. The working capital operations remained intensive marked by gross current asset days of 343 days as on March 31, 2021. The overall utilization of its fund based facilities remained moderate ranging between 51-66 percent for the twelve months ended January, 2022. The company maintained unencumbered cash and bank balances of Rs.2.17 crore as on March 31, 2021. The current ratio of the company stood at 1.65 times as on March 31, 2021. Acuité believes that the liquidity of the Company is likely to remain adequate over the medium term on account of comfortable cash accruals constrained to some extent by working capital intensive nature of operations.

Outlook: Stable

Acuité believes MEPL will maintain a 'Stable' outlook over the medium term on account of its experienced management, healthy financial risk profile and healthy order book position. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in scale of operations while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a slower than expected growth in revenues, delay in completion of its projects or further elongation in its working capital cycle impacting its liquidity profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	207.45	221.43
PAT	Rs. Cr.	15.71	12.45
PAT Margin	(%)	7.57	5.62
Total Debt/Tangible Net Worth	Times	0.37	0.45
PBDIT/Interest	Times	3.72	3.41

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 Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Nov 2020	Bank Guarantee	Short Term	70.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
28 Aug 2019	Bank Guarantee	Short Term	40.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	40.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	70.00	ACUITE A3 (Upgraded from ACUITE A4+)
	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)
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 Apr 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A3+ Upgraded (from ACUITE A3)
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+ Upgraded (from ACUITE A3)
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Yes Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	6.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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