

Press Release

Michigan Engineers Private Limited

April 05, 2023



Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.176.00 crore bank facilities of Michigan Engineers Private Limited (MEPL). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the consistent improvement in business risk profile of the company and healthy unexecuted order book position of the company. The rating also draws comfort from long track record and established position of the company in the construction industry along with extensive experience of the promoters. The rating also factors in the healthy financial risk profile and adequate liquidity position of the company. The rating is however constrained by working capital intensive nature of operations and exposure to intense competition in the industry.

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.

Acuité believes that MEL will continue to benefit from its experience in the infrastructure sector and its diversified order book over the medium term.

Improvement in scale of operations with healthy order book position

The operations of the company reported growth of ~52% in operating income to Rs. 317.19 crore in FY22 as against Rs. 207.45 crore in FY21. The improvement was majorly on account of timely execution of projects and successful bidding of multiple tenders floated in the market. Furthermore, the company achieved net sales Rs. 221.07 crore during 9MFY23. The company operates in 4 segments namely Segmental Lining, Micro Tunneling, Rehabilitation and others including construction of railways, bridges and roads. Segmental Lining contributes the highest at 49%, others (construction of railways, bridges and roads) contributes 34%, Micro tunnelling contributes 9% and rehabilitation contributes 8% to the total revenue as on February 2023.

The company has a total order book position of Rs. 2353.35 crore out of which Rs. 1971.35 crore as on February 2023 is the unexecuted position providing healthy revenue visibility over the near to medium term.

However, the operating profit margin of the company remain volatile and stood at 17.85% in FY22 compared against 19.10% in FY21 and 17.81% in FY20 on account of volatility in raw material prices. Also, the PAT margins of the company remained at 7% in FY22 as compared to 7.57% in FY21 and 5.62% in FY20.

Acuité believes that the ability of the company to maintain its scale of operations and improve in profitability will going to remain a key monitorable over the medium term.

Healthy Financial Risk Profile

The financial risk profile of the company is healthy marked by moderate net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company stood moderate at Rs.164.88 crore in FY22 as compared to Rs. 142.54 crore in FY21. The gearing of the company remained low at 0.02 times as on 31 March 2022. However, the gearing level of the company is expected to marginally deteriorate on account of increase in utilization of working capital limits. The total debt of the company stood at Rs. 3.16 crore as on 31st March 2022 as against Rs. 52.53 Crore as on 31st March 2021. The debt outstanding of the company comprises of long-term debt of Rs. 3.13 crore and Rs. 0.04 crore of short-term debt. The TOL/TNW improved and stood low at 0.58 times as on 31st March 2022 as against 0.94 times as on 31st March 2021. The debt protection metrics remains comfortable with debt service coverage ratio of 3.64 times in FY22 and interest coverage ratio stood at 7.33 times in FY22.

Acuité believes that the financial risk profile of the company will continue to remain healthy on account of steady cash accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by high GCA days which stood at 213 days for FY22 compared against 343 days for FY21. The GCA days mainly emanated from inventory days due to the nature of the construction industry which has a higher work in progress construction projects. The inventory levels of the company improved yet remained high at 92 days during the same period compared against 155 days for FY21. Simultaneously, the receivable days stood at 29 days for FY22 compared against 51

days for FY21. The creditor days of the company stood at 205 days for FY22 compared against 424 days for FY21. However, the average bank limit utilisation by the company remained moderate for fund-based facilities which stood at 47.83% and 81.11% for non-fund-based facilities for six months ended December 2022.

Acuité believes that the working capital management from the company will remain a key rating sensitivity going ahead.

Exposure to Intense competition in a fragmented 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
- Execution of projects on time
- Any further elongation in its working capital cycle

Material covenants

None

Liquidity Position Adequate

The liquidity position of the company remained adequate on account of adequate net cash accruals against matured debt obligations. The net cash accruals of the company stood at Rs. 35.51 crore against matured debt obligations of Rs.4.83 crore during the same period. Also, the company is expected to generate net cash accruals of ~Rs. 50 - Rs. 66 crore in FY23-25 period as against maturing repayment obligations of Rs.2.90 - Rs.0.98 crore during the same period. Furthermore, the average fund-based utilisation by the company remains moderate at 47.83% and 81.11% for non-fund-based facilities for last eight months ended February 2023 despite working capital intensive nature of operations. Also, the company maintains unencumbered cash and bank balance of Rs. 5.37 crore as on 31st March 2022. Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	317.19	207.45
PAT	Rs. Cr.	22.21	15.71
PAT Margin	(%)	7.00	7.57
Total Debt/Tangible Net Worth	Times	0.02	0.37
PBDIT/Interest	Times	7.33	3.72

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

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Feb 2022	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	70.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
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)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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