



Press Release
Michigan Engineers Private Limited
July 10, 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 its 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 stable business risk profile of the company reflected by improvement in operating profit margin despite marginal deterioration in revenues and healthy unexecuted order book position of the company. The rating also draws comfort from the 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, adequate liquidity position of the company and change in the ownership structure of the company. The rating is however constrained by working capital intensive nature of operations and exposure to intense competition in the industry.

Furthermore, Acuite takes note of the recently changed company's shareholding structure specifically related to the sale of Patel Engineering's shareholding to Authum Investment and Infrastructure Limited. As a result, Authum has become the company's largest shareholder with a 47% stake. Additionally, Mr. Saurin Manubhai Patel's ownership also decreased from 49% to 18%, with Patel Engineering now controlling 10% and Sansar Housing Finance Limited holding 25% of the company. Also, despite the change in shareholding, the management will remain unchanged and the company will retain its existing technical expertise. Acuite expects the new investors to provide financial flexibility to MEPL which will be beneficial in terms of bidding of new projects for new projects and seize market opportunities. Additionally, Acuite also takes note on the release of corporate guarantee provided by PEL and personal guarantee of Mr. Saurin Manubhai Patel as confirmed by lenders.

About the Company

Michigan Engineers Private Limited (MEPL) is a Mumbai based company, established in 1973 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, micro tunneling, segment lining, water drainage, sewage projects and others. However in May 2023,

PEL sold and transfer 41% to Authum Investment and Infrastructure Limited. The current shareholding of the company is as follows: Authum Investment and Infrastructure Limited holds the largest stake at 47%, Patel Engineering Limited holds 10%, Sansar Housing Finance

Limited holds 25% and Mr. Saurin Manubhai Patel holds 18.01% stake in the company.

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 and established track record of operations

The operations are led by Dr. Manubhai Patel who is a Civil Engineer and has an experience of over five decades in civil construction, along with his son, Mr. Saurin Patel with two decades of experience 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 profitability and healthy order book position

The profitability of the company witnessed improvement as reflected by operating profit margin of 23.81% in FY23 compared against 17.85% in FY22 and 19.10% in FY21. Also, the PAT margins of the company grew at 11.97% in FY23 as compared to 7.00% in FY22 and 7.57% in FY21. However, the operations of the company reported decline of 7.33% YoY in operating income to Rs. 293.93 crore in FY23 as against Rs. 317.19 crore in FY22. The degrowth is on account of lower execution of orders. 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 54%, others including construction of railways, bridges and roads contribute 29%, Micro tunnelling contributes 10% and rehabilitation contributes 7% to the total revenue in FY2023.

Furthermore, the company has a total order book position of Rs. 2400.67 crore out of which Rs. 1904.44 crore is the unexecuted order book position of the company providing healthy revenue visibility over the near to medium term. The company is expecting to complete orders worth Rs. 402.31 crore in FY24 out of the unexecuted order book position.

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 high net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company stood high at Rs. 199.21 crore in FY23 as compared to Rs. 164.88 crore in FY22. The total debt of the company stood at Rs. 11.35 crore in FY23 as against Rs. 3.16 crore in FY22 as against Rs. 52.23 crore in FY21. The debt outstanding of the company in FY23 comprises of long-term debt of Rs. 6.14 crore and Rs. 5.21 crore of short-term debt. The gearing of the company remained low at 0.06 times in FY23 as against 0.02 times in FY22 and 0.37 times in FY21. The TOL/TNW improved and stood at 0.47 times in FY23 as against 0.58 times in FY22 as against 0.94 times in FY21. The debt protection metrics remains comfortable with debt service coverage ratio of 6.62 times in FY23 as against 3.64 times in FY22 and interest coverage ratio stood at 10.40 times in FY23 as against 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 268 days in FY23 compared against 213 days for FY22. 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 stood at 110 days during the same period compared against 92 days for FY22. Simultaneously, the receivable days stood at 37 days for FY23 compared against 29 days for FY22. The creditor days of the company stood at 307 days for FY23 compared against 205 days for FY22. However, the average bank limit utilisation by the company remained moderate at 38.24% and 80.03% for non-fund-based facilities for the last ten months ended April 2023.

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 an 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 the management has been operating in this since last four decades.

Rating Sensitivities

- Ability to improve its scale of operations while maintaining its profitability and capital structure
- Execution of projects on time
- Financial flexibility from the new investors
- 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. 47.58 crore against matured debt obligations of Rs. 1.53 crore during the same period. Also, the company is expected to generate net cash accruals of ~Rs. 60 crore - Rs. 77 crore in FY23-25 period as against maturing repayment obligations of Rs. 1.80 crore - Rs. 1.18 crore during the same period. Furthermore, the average fund-based utilisation by the company remains moderate at 38.24% for fund based facilities and 80.03% for non-fund-based facilities for last ten months ended April 2023 despite working capital intensive nature of operations. Also, the company maintains unencumbered cash and bank balance of Rs. 1.49 crore as on 31st March 2023. 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	293.93	317.19
PAT	Rs. Cr.	35.17	22.21
PAT Margin	(%)	11.97	7.00
Total Debt/Tangible Net Worth	Times	0.06	0.02
PBDIT/Interest	Times	10.40	7.33

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
05 Apr 2023	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	70.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
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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