

**Press Release**  
**Michigan Engineers Private Limited**  
**September 01, 2023**  
**Rating Upgraded**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	66.00	ACUITE A-   Stable   Upgraded	-
Bank Loan Ratings	110.00	-	ACUITE A2+   Upgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	176.00	-	-

**Rating Rationale**

Acuite has upgraded its long term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and its short term rating to **ACUITE A2+** (read as **ACUITE A two plus**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.176.00 Cr. bank facilities of Michigan Engineers Private Limited (MEPL). The outlook is '**Stable**'.

**Rationale for Rating Upgrade**

The rating upgrade is majorly on account of acquisition of MEPL's 50.10% equity shareholding by Welspun Enterprises Limited (WEL). On August, 2023, WEL completed the acquisition of 8,69,596 equity shares of the paid-up equity share capital of Michigan Engineers Private Limited (MEPL) from the existing shareholders for an equity investment of Rs. 137.07 Cr and with completion of the transaction, MEPL is now a subsidiary of WEL.

As a result of this acquisition, the company has recently experienced changes with respect to the shareholding structure. Welspun Enterprises Limited has become the company's largest shareholder with a 50.10% stake. Additionally, Mr. Saurin Manubhai Patel's ownership decreased from 18% to 14%, Authum Investment & Infrastructure Limited's ownership reduced from 47% to 10.95%, Sansar Housing Finance Limited also reduced from 25% to 10.95%. However, PEL's shareholding in the company remained unchanged at 9.99% with the entry of a new investor at 4% i.e Fornindo Developers Limited. The rating takes into account the strong parentage i.e. WEL which has a track record of executing large Engineering Procurement and Construction (EPC) contracts for construction of roads, highways among others. The rating also draws comfort from 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 factors in the long track record and established position of the company in the construction industry along with extensive experience of the promoters along with healthy financial risk profile, 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**

Michigan Engineers Private Limited (MEPL) is a Mumbai based company, established in 1973 by Mr. Saurin Patel. 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. The operations are led by Mr. Saurin Patel who has more than 25

years of experience in the field of Civil Engineering and executing Projects in India with

extensive experience in tunnelling and pipeline rehabilitation projects. 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.

In 2023, 50.10% per cent of the shareholding was acquired by Welspun Enterprises Limited (WEL), making MEPL a subsidiary. The current shareholding of the company is as follows: Welspun Enterprises Limited holds the largest stake at 50.10%, Mr. Saurin Manubhai Patel holds 14.00% stake, Authum Investment and Infrastructure Limited and Sansar Housing Finance Limited hold 10.95% each, Patel Engineering Limited holds 9.99% and Fornido Developers Limited holds 4.01% stake in the company. Despite the significant changes in shareholding of the company, the change in ownership will have no impact on the management of MEPL and Mr. Saurin Patel will continue as the key decision maker for all business matters and the company will retain its existing technical expertise.

### **Standalone (Unsupported) Rating**

ACUITE BBB/Stable/ACUITE A3+

### **Analytical Approach**

Acuité has considered the standalone business and financial risk profile of MEPL to arrive at this rating. The rating has been notched-up by considering financial and operational support from its parent/sponsor company – Welspun Enterprises Limited (WEL).

### **Key Rating Drivers**

#### **Strengths**

##### **Strong parentage led by recent acquisition of the company**

Welspun Enterprises Limited (WEL), the infrastructure development arm of Welspun World has recently completed the acquisition of 8,69,596 equity shares representing 50.10% of the paid-up equity share capital of Michigan Engineers Private Limited (MEPL) from the existing shareholders for Rs. 137.07 crore. With the completion of the transaction, MEPL is now a subsidiary of WEL. This acquisition has dual advantage for MEL. WEL which has a track record of executing large Engineering Procurement and Construction (EPC) contracts for construction of roads, highways among others. Acuité believes that the recent acquisition from WEL, the company is expected to receive financial and operations support going forward and will also be expected to benefit the company to cater opportunities to a broader market reach, leveraging MEPL's established market presence in the tunnel infrastructure market.

##### **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 MEPL 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 (excluding WIP) 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 improvement 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

### **All Covenants**

Not Applicable

### **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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Jul 2023	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB   Stable (Reaffirmed)
	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)
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	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)
	Bank Guarantee	Short Term	40.00	ACUITE A3+ (Upgraded from ACUITE A3)
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 A2+   Upgraded
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A2+   Upgraded
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A-   Stable   Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A-   Stable   Upgraded
Yes Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	6.00	ACUITE A-   Stable   Upgraded



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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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