

Press Release

PERFECT ENGINEERING CORPORATION

January 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 7.50 crore bank facilities of PERFECT ENGINEERING CORPORATION. The outlook is '**Stable**'.

The Mumbai-based Perfect Engineering Corporation (PEC), a civil construction firm, was established in 1992 by Mr. Mahendra Shah. The Class I-C firm undertakes repairing of buildings, desalting of storm water drains, sewerage projects, construction of compound walls etc for Municipal Corporation of Greater Mumbai (MCGM). The firm has an unexecuted order book position of Rs.12 crore as on 30 September, 2017 to be executed by the end of March 2018.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters**

PEC was established in 1992 by Mr. Mahendra Shah who possesses extensive experience in the industry.

Weaknesses

- **Small scale of operations, uneven revenue trend**

The scale of operations is small despite the firm being in business for more than two decades. Further, the firm has reported uneven revenue trend with operating income of Rs.10.60 crore for FY2017 (Provisional) as against Rs.5.85 crore in the previous year. The operations are tender based. As a result the profit margins are vulnerable to order cyclical. Further, the firm has reported Rs. 6.00 crore for FY2018 (6M) and has an order book position of Rs.12.00 crore to be completed by March, 2018.

- **Working capital intensive business**

The operations are working capital intensive marked by gross current asset days (GCA) of 382 in FY2017 (Provisional) as against 433 for FY2016. The high GCA days are on account of stretched inventory and debtor days of 60 for FY2017. Besides, other current assets stood at Rs. 8.07 crore as on 31st March, 2017. The firm has reported negative net cash from operations of Rs. 2.42 crore for FY2017.

- **Average financial risk profile**

The financial risk profile is average marked by networth of Rs.3.50 crore (Provisional) as on 31 March, 2017 compared to Rs.2.48 crore as on 31 March, 2016. The gearing stood at 1.94 times (Provisional) as on 31 March, 2017 as against 2.37 times in the previous year. The Interest coverage ratio (ICR) stood at 2.72 times (Provisional) in FY2017 compared to 1.91 times in FY2016. The NCA/TD stood at 0.17 times (Provisional) for FY2017 as against 0.06 times in the previous year. The TOL/TNW stood at 2.78 times (Provisional) as on 31 March, 2017 and 3.25 times in the previous year.

- **Customer and geographic concentration risk**

The firm is exposed to customer concentration risk as it receives around 90 percent contracts from

Municipal Corporation of Greater Mumbai. Also, the firm operates only in Mumbai hence it is exposed to geographic concentration risk.

• Intense competition from established players

PEC is exposed to intense competition from organised and unorganised players in the industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that the outlook on PEC's rated facilities will remain stable over the medium term on account of its long track record of operations and experience of the proprietor. The outlook may be revised to 'Positive' if the firm registers significant and sustainable growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Provisional)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	10.60	5.85	8.34
EBITDA	Rs. Cr.	1.61	0.85	0.93
PAT	Rs. Cr.	1.11	0.34	0.45
EBITDA Margin	(%)	15.19	14.52	11.16
PAT Margin	(%)	10.52	5.75	5.41
ROCE	(%)	19.20	12.08	15.22
Total Debt/Tangible Net Worth	Times	1.94	2.37	3.27
PBDIT/Interest	Times	2.72	1.91	2.38
Total Debt/PBDIT	Times	3.69	5.64	5.68
Gross Current Assets (Days)	Days	382	433	374

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

India Ratings revised the ratings of the company to non-cooperating category, with the following rationale on October 10, 2017: India Ratings and Research (Ind-Ra) has migrated Perfect Engineering Corporation's Long-Term Issuer Rating to the non-cooperating category. The issuer did not participate in the rating exercise, despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The rating will now appear as 'IND B+(ISSUER NOT COOPERATING)' on the agency's website.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smerra.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4

Contacts

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ABOUT SMERA

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