

Press Release

Perfect Engineering Corporation

January 03, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) from **ACUITE A4** to the Rs. 7.50 crore bank facilities of Perfect Engineering Corporation (PEC). The outlook is '**Stable**'.

The Mumbai-based 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 and construction of compound walls, among others for Municipal Corporation of Greater Mumbai (MCGM).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PEC to arrive at the rating.

Key Rating Drivers

Strengths

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

PEC was established in 1992 by Mr. Mahendra Shah as a proprietary firm. The promoter possesses extensive experience in the industry.

Weaknesses

- **Small scale of operations**

The scale of operations is small despite the firm being in business for more than two decades. The firm has reported operating income of Rs.12.91 crore for FY2018 as against Rs.9.94 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.4.00 crore for FY2019 (8M) and has an order book position of Rs.10.00 crore to be completed by December, 2019.

- **Average financial risk profile**

The financial risk profile is average marked by tangible net worth of Rs.3.92 crore as on 31 March, 2018 as against Rs.3.11 crore in the previous year. The gearing stood at 2.01 times on 31 March, 2018 as against 2.66 times in the previous year. The total debt of Rs.7.87 crore as on 31 March, 2018 includes term loan of Rs.0.59 crore, interest bearing unsecured loan of Rs.6.50 crore and working capital borrowings of Rs.0.78 crore. The interest coverage ratio (ICR) stood at 2.26 times for FY2018 and 2.27 times for FY2017. The debt service coverage ratio (DSCR) stood at 2.26 times for FY2018 and 1.92 times for FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 3.22 times as on 31 March, 2018 as against 3.93 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.15 times in FY2018 compared to 0.09 times in FY2017. Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

- **Working capital intensive operations**

The operations are working capital intensive evident from Gross Current Assets (GCA) of 324 days for FY2018 as against 409 days for FY2017. This is mainly on account of high debtor days of 72 as on 31 March, 2018 and high amount of deposits to be maintained with customers including tender deposits and retention money.

Outlook: Stable

Acuité 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 | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 12.91 | 9.94 | 5.85 |
| EBITDA | Rs. Cr. | 1.86 | 1.65 | 0.85 |
| PAT | Rs. Cr. | 1.08 | 0.71 | 0.34 |
| EBITDA Margin | (%) | 14.41 | 16.58 | 14.52 |
| PAT Margin | (%) | 8.40 | 7.18 | 5.75 |
| ROCE | (%) | 17.22 | 18.56 | 12.08 |
| Total Debt/Tangible Net Worth | Times | 2.01 | 2.66 | 2.37 |
| PBDIT/Interest | Times | 2.26 | 2.27 | 1.91 |
| Total Debt/PBDIT | Times | 2.05 | 1.59 | 0.93 |
| Gross Current Assets (Days) | Days | 324 | 409 | 433 |

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-------------------------------|
| 09-Jan-2018 | Cash Credit | Long Term | 2.00 | ACUITE B+ / Stable (Assigned) |
| | Bank Guarantee | Short Term | 4.50 | ACUITE A4 (Assigned) |
| | Proposed Bank Guarantee | Short Term | 1.00 | ACUITE A4 (Assigned) |

***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 | ACUITE B+ / Stable (Reaffirmed) |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE A4 (Reaffirmed) |

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About Acuité Ratings & Research:

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