

Press Release

PERFECT ENGINEERING CORPORATION

December 30, 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**) on the Rs. 7.50 crore bank facilities of PERFECT ENGINEERING CORPORATION (PEC). The outlook is '**Stable**'.

Established in 1992, PEC is a Mumbai-based proprietorship firm engaged in civil construction business. The day to day operations are managed by Mr. Mahendra Shah. The Class I-CA 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 standalone business and financial risk profile of PEC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

PEC is promoted by Mr. Mahendra Shah who has an extensive experience of over two decades in civil construction industry. PEC has an order book of about Rs.25.49 crore out of which value of work to be completed is around Rs.16.27 crore by FY2020-21.

Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers.

Weaknesses

- **Modest scale of operations and deterioration in profitability**

The firm has reported marginal revenue growth with compounded annual growth rate (CAGR) of around ~7.37 percent through the last three years ended 31 March, 2019. The firm reported moderate decline in revenue of ~11.30 percent with operating income of Rs.11.46 crore in FY2019 as against operating income of Rs.12.91 crore in FY2018. However, the operating margins of the firm marginally improved to 15.58 percent in FY2019 from 14.41 percent in FY2018. Further Profit after Tax (PAT) margin deteriorated to 6.61 per cent in FY2019 from 8.40 per cent in FY2018.

Acuité believes that the scale of operations of the firm will remain at modest level at the back of modest order book.

- **Average financial risk profile**

The financial risk profile is average marked by modest net worth and moderate debt protection measures and high gearing. The net worth of the firm is modest at Rs.4.52 crore as on 31 March 2019 as against Rs.3.92 crore as on 31 March 2018. The gearing (debt to equity) of the firm stood at 1.91 times as on March 31 2019 as against 2.01 times as on March 31 2018. Total debt of Rs.8.63 crore consists of term loan of Rs.0.44 crore, unsecured loans of Rs.7.06 crore and working capital facility of Rs.1.13 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.61 times as on 31 March 2019 as against 3.22 times as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 2.35 times in FY2019 as against 2.26 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March 2019 as against 0.15 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) deteriorated to 1.52 times in FY2019 from 2.26 times in FY2018.

• **Intensive working capital operations**

The working capital of PEC is intensive in nature marked by high Gross Current Asset (GCA) days of 343 for FY2019 as against 324 in the previous year. Inventory days stood at 43 for FY2019 as against 21 for FY2018, further debtor days stood at 51 in FY2019 as against 72 in FY2018. However, the reliance on working capital facility is moderate, its utilization is around ~60 to 70 percent on an average for last 6 months ending November, 2019.

Going ahead, the ability of the firm to efficiently manage its working capital requirements will remain the key rating sensitivity.

• **Tender based business**

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The firm has to do tendering on competitive prices; this may affect the profitability of the company. This has resulted in fluctuating operating profit margins.

Rating Sensitivity

- Increase in scale of operations coupled with improvement in profitability.
- Deterioration in financial risk profile.

Material Covenants

None.

Liquidity Position: Stretched

PEC has stretched liquidity marked by net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.81 crore in FY2019 as against Rs.1.14 crore in FY2018 and Rs.0.76 crore in FY2017, while its maturing debt obligation was around Rs.0.10 crore for FY2017-19. The firm's working capital operations are intensive marked by gross current asset (GCA) days of 343 in FY2019. Further, the reliance on working capital borrowings is moderate, the cash credit limit in the firm remains utilized at ~60 to 70 percent during the last 6 months' period ended November, 2019. The firm has maintained unencumbered cash and bank balances of Rs.1.98 crore as on March 31, 2019. The current ratio of the firm stands at 3.41 times as on March 31, 2019.

Outlook: Stable

Acuité believes that PEC will maintain a 'Stable' business profile in the medium term, while benefitting from its experienced management and growth in operations. The outlook may be revised to 'Positive' if PEC shows significant improvement in financial risk profile and revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in-case of further deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	11.46	12.91
PAT	Rs. Cr.	0.76	1.08
PAT Margin	(%)	6.61	8.40
Total Debt/Tangible Net Worth	Times	1.91	2.01
PBDIT/Interest	Times	2.35	2.26

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/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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
03-Jan-2019	Cash Credit	Long Term	2.00	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.50	ACUITE A4 (Reaffirmed)
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 (Reaffirmed)

***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	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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