

Press Release

Power Engineering Corporation (PEC)

May 05, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.10 Cr
Long Term Rating	SMERA B+/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.6.10 cr bank facilities of Power Engineering Corporation (PEC). The outlook is '**Stable**'.

PEC, established in 1992, is a Nagpur-based firm, engaged in the execution of electrical contracts.

List of key rating drivers and their detailed description

Strengths

Experienced management: Mr. Prabhakar Pannase, Proprietor, has experience of over two decades in the industry. He has executed electrical projects for real estate developers along with the Government entities.

Weaknesses

Modest scale of operations: The firm has modest scale of operations with revenue of around Rs.11.80 cr in FY2016, an increase from Rs.4.03 cr in FY2015 mainly on account of orders worth Rs.34.00 cr received from Maharashtra State Electricity Distribution Company Limited (MSEDCL) which is executed in tranches. The firm earned revenue of around ~Rs.11.00 cr from April to December, 2016 (provisional).

Further the firm has order book of ~Rs.11.15 cr (including MSEDCL pending order of ~Rs.8.00 cr) as on January, 2017 against revenue of Rs.11.80 cr in FY2015-16 (~1.00 times of the revenue of FY2015-16) thus creating moderate revenue visibility.

Customer concentration risk: The firm mainly bids for tenders floated by Maharashtra State Electricity Distribution Company Limited, thus exposing itself to customer concentration risk. Since the nature of business is tender based, the revenues are largely dependent on the ability of the firm to successfully bid for tenders. Besides, with low entry barriers in the industry, the firm is exposed to intense competition in bids.

SMERA believes that any event such as a significant slowdown in receipt of orders, deferment of projects by the counterparty or delay in realisation of receivables from major customers can have a bearing on the credit profile of the firm.

Working capital intensive operations: The GCA stood high at around 217 days in FY2016 mainly on account of high inventory of around 104 days and balance comprising of other current assets.

SMERA believes that the efficient working capital management will be crucial to maintain a stable credit profile.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the ratings.

Applicable Criteria

- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that PEC will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity

PEC established in 1992 is a proprietorship concern established by Mr. Prabhakar Pannase. The firm is a Class-A electrical contractor in Maharashtra engaged in electric contracts including installation of sub-stations, pump connections and fabrication.

For FY2015-16, PEC reported net profit of Rs.0.51 cr on operating income of Rs.11.80 cr, as compared to net profit of Rs.0.31 cr on operating income of Rs.4.03 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	2.00	SMERA B+/Stable (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	1.00	SMERA A4 (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	3.00	SMERA A4 (Assigned)	-	-	-	-	-	-
Proposed Fund Based	LT	0.10	SMERA B+/Stable (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	NA	NA	NA	2.00	SMERA B+/Stable (Assigned)
Letter of Credit	NA	NA	NA	1.00	SMERA A4 (Assigned)
Bank Guarantee	NA	NA	NA	3.00	SMERA A4 (Assigned)
Proposed Fund Based	NA	NA	NA	0.10	SMERA B+/Stable (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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