

Press Release

Phoenix Engineering

May 29, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.10 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**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 8.10 crore bank facilities of Phoenix Engineering. The outlook is '**Stable**'.

Phoenix Engineering (PE), established in 1984 is a Nagpur-based partnership firm engaged in civil construction. The firm is a Class 'A' contractor promoted by Ms. Prema Patil and Mr. Sunil Patil. PE undertakes construction for government bodies such as Nagpur Municipal Corporation, National Highway Division (Nagpur) apart from fabrication contracts.

Key Rating Drivers

Strengths

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

Phoenix Engineering was established in 1984. The firm was promoted by Mr. Sunil Patil and Ms. Prema Patil who possess over three decades of experience in the construction and fabrication business.

- **Comfortable profitability**

PE registered operating margin of 12.22 percent and PAT (Profit after tax) margin of 5.78 percent for FY2016 against operating margin of 10.49 percent and PAT margin of 5.69 percent for FY2015.

- **Moderate order book position**

The firm has moderate order book of Rs.23.87 crore for construction of roads and Rs.0.58 crore for fabrication work that provide revenue visibility for the medium term.

Weaknesses

- **Small scale of operations**

PE has modest scale of operations marked by operating income of Rs.13.52 for FY2016 against Rs.15.13 for FY2015 and Rs.9.08 for FY2014. From April 2016 to March 2017, the firm achieved revenue of Rs.23.50 crore.

- **Average financial risk profile**

PE has average financial risk profile marked by gearing (debt-to-equity) of 2.73 times as on 31 March, 2016 against 2.18 times for 31 March, 2015. The total debt mainly comprises working capital borrowings and unsecured loan raised through promoters. The debt protection metrics stood moderate with ICR (Interest coverage ratio) of 2.74 times and NCA /TD of 0.12 times for FY2016 as against ICR of 2.98 times and NCA /TD of 0.13 times for FY2015. Further, the tangible net worth stood at Rs.3.12 crore as on 31 March, 2016.

- **Working capital intensive operations**

PE has working capital intensive operations marked by GCA (gross current assets) of 268 days for FY2016 as against 124 days for FY2015. This is mainly on account of high debtor days of 205 for FY2016 against 120 for FY2015. PE experiences delays in receipt of payment as a result its debtors days are stretched. Further, utilisation of working capital borrowing stood at ~100.00 percent for the past six months

- **High dependency on government contracts**

PE is a class A contractor and can bid for unlimited number of tenders. Since the firm caters mainly to government bodies, it is exposed to high customer concentration risk.

- **Partnership constitution**

The partnership constitution of the firm makes it vulnerable to the risk of capital withdrawal

- **Intense market competition**

PE is exposed to intense competition from organised and unorganised players in the civil construction industry.

Analytical Approach

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

Outlook: Stable

SMERA believes that PE will maintain a Stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers more than expected growth in revenues while achieving improvement in profitability. Conversely the outlook may be revised to 'Negative' in case of high working capital requirements increasing pressure on margins.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported profit after tax (PAT) of Rs.0.78 crore on operating income of Rs.13.52 crore as compared with net profit of Rs.0.86 crore on operating income of Rs.15.13 crore in FY2014-15. The net worth stood at Rs.3.12 crore as on 31 March, 2016 as against Rs.3.86 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of	Coupon	Maturity	Size of the Issue	Ratings/Outlook
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	Issuance	Rate	Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.10	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4

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ABOUT SMERA

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