

Press Release

Computer Engineers

July 21, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.00 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. 9.00 crore bank facilities of Computer Engineers. The outlook is '**Stable**'.

Computer Engineers (CE), established in 1990 is a Mumbai-based proprietorship concern established by Mr. Chetan Mehta. The firm undertakes civil contracts for Brihanmumbai Municipal Corporation and Maharashtra Housing and Area Development Authority. Further, the firm also undertakes refuse collection under a joint venture with BCD Associates.

Key Rating Drivers

Strengths

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

The firm has been in the civil construction business for the last 27 years. The established track record of operations has helped maintain long standing relations with customers and suppliers. Further, the promoter Mr. Chetan Mehta has more than three decades of experience in the business.

- **Funding support from promoter**

The promoter has made continuous infusion of capital during the last three years as the tangible networth stood at Rs. 14.54 crore as on 31st March, 2016 as against Rs. 12.66 crore in the previous year. Further, the total debt of Rs. 10.39 crore as on 31 March, 2016 includes interest bearing unsecured loan of Rs. 9.37 crore from related parties. Timely funding support from parent in case of exigencies will remain the key rating sensitivity going ahead.

Weaknesses

- **Small scale of operations**

The scale of operations is small with operating income of Rs. 8.49 crore for FY2016 as against Rs.10.40 crore in the previous year. The decline of around 19 percent in the operating income is mainly on account of the tender based nature of business and intense competition in the civil construction industry. The firm is vulnerable to order cyclicity. Further, as informed by the management, CE has reported operating income of Rs. 20.72 crore for FY2017 (Provisional) due to increase in work executed for the Municipal Corporation of Greater Mumbai and additional contracts received from Landmark Corporation Private Limited and HMV Associates in FY2016-17. The firm has unexecuted order book position of Rs. 32.32 crore as on date and the same is expected to be executed over the next 19 months.

- **Average financial risk profile**

The financial risk profile is average marked by inadequate interest coverage ratio of 1.60 times for

FY2016 as against 2.06 times in the previous year. Further, the net cash accruals to total debt (NCA/TD) stood at 0.06 times as on 31st March, 2016 as against 0.09 times in the previous year. Further, the firm has given loans and advances to its group/affiliates of around 41 percent of its total tangible network.

• **Working capital intensive operations**

The operations are working capital intensive since the firm is into construction activity. This is evident from the high gross current assets (GCA) days of 914 days for FY2015-16 as against 519 days in the previous year. The high GCA days is largely driven by high inventory days, loans and advances extended to group/affiliates and high amount of security deposit placed against contracts. The inventory days stood at 101 for FY2015-16 as against 55 in the previous year. However, the firm has comfortable liquidity position as the average overdraft limit utilisation stands at around 42 percent for the last six months ended 31st March, 2017.

• **Proprietorship constitution**

The firm is exposed to risk of capital withdrawal due to the proprietorship constitution of the firm.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on CE's rated facilities will remain stable over the medium term on account of its promoter's extensive experience in the civil construction industry. The outlook may be revised to 'Positive' if it registers higher than expected 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

For FY2015-16, CE reported net profit of Rs. 0.48 crore on operating income of Rs. 8.49 crore as against net profit of Rs. 0.58 crore on operating income of Rs. 10.40 in the previous year. The net worth stood at Rs. 14.54 crore as on March 31, 2016 as against Rs. 12.66 crore in the previous year.

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

CRISIL, vide release dated October 4, 2016 has suspended its ratings on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

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 Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	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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