

Press Release

Computer Engineers

August 21, 2018



Rating Upgraded & Reaffirmed

Total Bank Facilities Rated*	Rs.14.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB-**' (**read as ACUITE BB minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) and reaffirmed short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.14.00 crore bank facilities of Computer Engineers (CE). The outlook is '**Stable**'.

The rating has been upgraded based on sustained improvement in revenues at a compounded annual growth rate (CAGR) of about 26 per cent over three years along with improvement in profitability and existing order book of Rs.61.73 crore which provides revenue visibility. The Profit after Tax (PAT) margin has improved to 6.32 percent in FY2018 (Provisional) from 5.17 percent in FY2017. Improvement in net profitability has resulted in sustainable net cash accruals.

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 (BMC) and Maharashtra Housing and Area Development Authority (MHADA). The firm is an AA class contractor.

Key Rating Drivers

Strengths

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

The firm has been in the civil construction business for around three decades. 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.

- **Moderate financial risk profile**

CE has moderate financial risk profile marked by moderate networth of Rs.17.02 crore as on 31 March 2018 (Provisional) as against Rs.14.90 crore as on 31 March 2017. Gearing (debt to equity) ratio stood at 0.98 times as on 31 March, 2018 (Provisional) as against 0.26 times as on 31 March, 2017. Further, Interest Coverage Ratio (ICR) increased to 2.47 times for FY2018 (Provisional) from 1.94 times for FY2017. This is mainly due to decline in interest obligation. Debt Servicing Coverage Ratio (DSCR) increased to 2.51 times for FY2018 (Provisional) from 1.94 times for FY2017.

Weaknesses

- **Moderate scale of operations**

Moderate scale of operations is marked with operating income of Rs.20.62 crore for FY2018 (Provisional) as against Rs.20.51 crore in the previous year. The firm has unexecuted orders of Rs.61.73 crore as on date and the same is expected to be executed by 2019-20. Further, the firm has also acquired a refuse collection contract of Rs.300 crore for 7 years under a joint venture in which the firm has 51% share.

• **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 652 days for FY2018 (Provisional) as against 303 days in the previous year. This is mainly due to increase in deposits to Rs.22.04 crore in FY2018 (Provisional) from Rs.8.12 crore in FY2017 which was used for bidding of tenders. The inventory days stood at 1 for FY2018 (Provisional) as against 4 in the previous year. Debtor outstanding stood at 75 days in FY2018 (Provisional) as against 70 days in FY2017. However, the firm has moderate liquidity position as the average overdraft limit utilization stands at around 50 percent for the last six months ended July, 2018.

• **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. Firm has to do tendering on competitive prices; this may affect the profitability of the firm. This has resulted in fluctuating operating profit margins.

Analytical Approach

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

Outlook: Stable

ACUITE 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

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	20.62	20.51	8.49
EBITDA	Rs. Cr.	1.87	1.89	1.07
PAT	Rs. Cr.	1.30	1.06	0.48
EBITDA Margin	(%)	9.05	9.24	12.55
PAT Margin	(%)	6.32	5.17	5.69
ROCE	(%)	8.60	10.40	6.35
Total Debt/Tangible Net Worth	Times	0.98	0.26	0.71
PBDIT/Interest	Times	2.47	1.94	1.60
Total Debt/PBDIT	Times	7.09	1.64	6.79
Gross Current Assets (Days)	Days	652	303	914

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

None.

Any other information

None.

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
21-Jul-2017	Cash Credit	Long Term	5.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	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	6.00	ACUITE BB- / Stable (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141191 aditya.gupta@acuite.in Saurabh Rane Analyst - Rating Operations Tel: 022-49294044 saurabh.rane@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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