

Press Release

Computer Engineers

September 30, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr. (Enhanced from Rs.14.00 crore)
Long Term Rating	ACUITE BB- / Outlook: Negative (Rating reaffirmed; Outlook Revised)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 25.00 crore bank facilities of COMPUTER ENGINEERS (CE). The outlook is revised from '**Stable**' to '**Negative**'.

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.

Analytical Approach

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

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.

Weaknesses

- Small scale of operations and decline in profitability**

The scale of operations is small with operating income of Rs. 21.10 crore for FY2019 (Provisional) as against Rs. 20.71 crore in the previous year. Further, the firm has registered operating losses marked by negative operating margins of 9.03 per cent in FY2019 (Provisional) as against 8.85 per cent in FY2018. However, the firm has unexecuted order book position of Rs.111.37 crore as on date and the same is expected to be executed by 2019-22.

Acuité believes that the scale of operations will improve going forward at the back of healthy order book.

- 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 538 days for FY2019 (Provisional) as against 604 days in the previous year. The inventory days stood at 76 for FY2019 (Provisional) as against 21 in the previous year. Debtor outstanding stood at 105 days in FY2019 (Provisional) as against 82 days in FY2018. However, the average working capital limit utilisation stood at around 12 per cent for the last six months ended August, 2019. This is majorly because of the slowdown in the construction activity due to elections and monsoon season.

Acuité believes that the working capital operations will remain intensive due to the nature of the business.

- **Average financial risk profile**

The financial risk profile is average marked by moderate net worth and weak debt protection measures and moderate gearing. Though the net worth has increased it has stood moderate marked by Rs. 22.01 crore as on 31 March, 2019 (Provisional) as against Rs.16.32 crore as on 31 March, 2018. The gearing of the firm stood at 0.71 times as on March 31, 2019 (Provisional) as against 0.95 times as on 31 March, 2018. Total debt of Rs.15.57 crore in FY2019 (Provisional) includes unsecured loans of Rs.15.30 crore and working capital borrowing of Rs.0.27 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.81 times as on 31 March, 2019 (Provisional) as against 1.56 times as on 31 March, 2018. Interest Coverage Ratio (ICR) deteriorated to negative 0.71 times in FY2019 (Provisional) from 2.20 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) deteriorated to negative 0.23 times as on 31 March, 2019 (Provisional) from 0.07 times as on 31 March, 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. The firm has to do tendering on competitive prices; this may affect the profitability of the firm. This has resulted in fluctuating operating profit margins.

Rating Sensitivity

- Increase in scale of operations to around Rs.30.00 crore to Rs. 40.00 crore coupled with improvement in profitability.

Material Covenants

None

Liquidity Position:

CE has poor liquidity marked by negative net cash accruals. The firm generated negative cash accruals of Rs.3.52 crore in FY2019 (Provisional) as against Rs.1.15 crore in FY2018 and Rs.1.14 crore in FY2017. However, its maturing debt obligation for the same period was nil. The firm's working capital operations are intensive as marked by high gross current asset (GCA) days of 538 in FY2019 (Provisional). Further, the reliance on working capital borrowings is low, the cash credit limit in the firm remains utilized at ~12 per cent during the last 6 months' period ended August, 2019. The firm maintains unencumbered cash and bank balances of Rs.1.26 crore as on March 31, 2019 (Provisional). The current ratio of the firm stood at 14.36 times as on March 31, 2019 (Provisional).

Outlook: Negative

Acuité believes that the firm's outlook will remain 'Negative' over the medium term as the firm has reported operating losses and continuous decline in key financial parameters leading to poor liquidity position. The rating may be downgraded in case of sustained decline in operating performance and deterioration in financial risk profile. Conversely, the outlook may be revised to 'Stable' if the firm registers significant improvement in operating performance and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	21.10	20.71	20.51
EBITDA	Rs. Cr.	(1.91)	1.83	1.89
PAT	Rs. Cr.	(3.52)	1.05	1.06
EBITDA Margin	(%)	(9.03)	8.85	9.24
PAT Margin	(%)	(16.69)	5.05	5.17
ROCE	(%)	(4.21)	7.93	10.40
Total Debt/Tangible Net Worth	Times	0.71	0.95	0.26
PBDIT/Interest	Times	(0.71)	2.20	1.94
Total Debt/PBDIT	Times	(10.67)	7.35	1.64
Gross Current Assets (Days)	Days	538	604	303

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-8.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-Aug-18	Cash Credit	Long Term	6.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
	Bank Guarantee	Short Term	8.00	ACUITE A4 (Reaffirmed)
21-July-17	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-/Negative (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB-/Negative (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 022-49294034 saurabh.rane@acuite.in	

About Acuité Ratings & Research:

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