

Press Release

Cimechel Electric Co.

April 18, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 95.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Rating Reaffirmed; Outlook Revised)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 95.00 crore bank facilities of Cimechel Electric Co. (CEC). The outlook is revised from '**Stable**' to '**Negative**'.

The revision in the outlook is based on Acuité's expectation that the liquidity profile is expected to be under stress over near to medium term. Any further deterioration in the liquidity will impart a further downward bias to the rating.

CEC was established as a partnership firm in 1998 by Mr. Viren R Shah and Mrs. Jyoti V Shah. CEC is primarily engaged as an EPC contractor of overhead electrification projects for the Indian Railways. During FY15 and FY16, CEC was also involved in rural electrification under Deendayal Upadhyaya Gram Jyoti Yojana Scheme for Madhya Pradesh government. The firm caters to reputed clients- Central Railways, Western Railways, Maharashtra State Power Generation Co. Ltd., and Steel Authority of India. The firm procures its raw materials, i.e., steel, copper, transformers and insulators from selective suppliers as mentioned by the railways department.

Analytical Approach

Acuité has considered the standalone business risk and financial risk profile of Cimechel Electric Co. to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations with experienced management

The firm has been in this line of business since 1998. Mr. V R Shah has around 38 years of experience in this line of business. He has been associated with his family business 'Cimechel Engineering', which was also engaged in overhead electrification. The promoter's extensive experience is also reflected through the healthy revenue growth over the past 4 years through 2017-18. The company's revenue grew at a CAGR of 44 percent to Rs.112.95 crore over the aforementioned period. CEC's order book position remains healthy at Rs.450.00 crore as on 31 March, 2019. Hence, the healthy order book provides modest revenue visibility for the company over the medium term. Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

• Diversified reputed client base with geographical diversification

The firm caters to reputed clientele including Central Railways, Western Railways, Maharashtra State Power Generation Co. Ltd., and Steel Authority of India. The firm has executed projects in eight states such as Gujarat, Maharashtra, West Bengal, Odisha and Madhya Pradesh, among others. The firm has generated revenue of Rs. 180.00 crore during April 2018 to March 2019 (Provisional).

Weaknesses

- **Moderate financial risk profile**

CEC's financial risk profile is marked by its moderate net worth, moderate gearing and debt protection measures. The net worth deteriorated to Rs.14.64 crore as on 31 March, 2018 as against Rs.20.88 crore in the previous year on account of withdrawal of funds from the partner's capital. The company's gearing is estimated to be moderate at 2.17 times as on 31 March, 2018 as against 0.86 times in the previous year. The company has followed a moderate financial policy in the past, as reflected by its peak gearing of around 2.17 times as on March 31, 2018. The total debt of Rs.31.85 crore consists of long term debt of Rs.0.72 crore, Rs. 3.60 crore of unsecured loans from promoters and relatives, unsecured loans from Financial Institutions of Rs. 4.37 crore and Rs.23.16 crore of short term debt obligations. The healthy revenue growth coupled with moderate profitability levels have resulted in healthy net cash accruals of Rs.6.15 crore during 2016-18. Also, the debt levels have increased to around Rs.31.85 crore during the same period, leading to moderate debt protection measures. The interest coverage ratio stood at 2.96 times in FY18 as against 2.76 times in the previous year. NCA/TD ratio stood at 0.19 times in FY18. Acuité believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals and minimal reliance on debt.

- **Profitability susceptible to fluctuations in input cost**

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature with labour cost constituting around ~77 percent of the total revenue of the company. Hence, any adverse movement in input costs could impact profitability. However, the company reported EBITDA margin of 8.13 percent in FY2018 as against 5.29 percent in the previous year.

- **Working capital intensive nature of operations**

The working capital operations of CEC are moderate reflected by Gross Current Assets (GCA) days which stood at 157 days, driven by debtors of 92 days and inventory of 16 days, as on March 31, 2018. Inventory is expected to be around similar levels over the medium term. Working capital requirement is funded through bank lines that have been 70 percent utilised over the six months through March 2019. Creditors were at 18 days as on March 31, 2018.

- **Tender based business**

The nature of business is tender based and the firm faces intense competition in the industry. The firm's success ratio of winning the bids is to the tune of 60-70 per cent. The firm generates its entire revenue from railway projects.

Liquidity Position:

CEC has stretched liquidity marked by strained working capital. The company generated cash accruals of Rs.2.00-6.00 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.0.10-1.00 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.10.00-13.00 crore during 2019-21. The company's working capital operations are intensive as marked by Gross Current Asset (GCA) days of 157 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.48 crore as on March 31, 2018. The current ratio of the company stood below average at 1.63 times as on March 31, 2018. Acuité believes that timely realisation of the debtors in order to improve its working capital operations and the liquidity position will be a key rating sensitivity.

Outlook: Negative

Acuité believes that CEC's credit profile will be impacted by stretched receivable position resulting in elongated working capital cycle over near to medium term. The rating may be downgraded in case of further elongation in the working capital cycle causing further deterioration of financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in working capital cycle, thereby translating into significant improvement in its liquidity profile and debt protection indicators.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	112.95	73.98	60.76
EBITDA	Rs. Cr.	12.07	6.01	3.21
PAT	Rs. Cr.	5.93	3.10	1.89
EBITDA Margin	(%)	10.68	8.13	5.29
PAT Margin	(%)	5.25	4.20	3.11
ROCE	(%)	32.47	21.34	15.12
Total Debt/Tangible Net Worth	Times	2.17	0.86	4.84
PBDIT/Interest	Times	2.96	2.76	1.68
Total Debt/PBDIT	Times	2.26	2.28	5.36
Gross Current Assets (Days)	Days	157	174	177

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
02-Feb-2018	Cash Credit	Long Term	20.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	35.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Proposed Fund Based	Short Term	5.00	ACUITE BBB- / Stable (Assigned)
	Proposed Non-Fund Based	Short Term	25.00	ACUITE A3 (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	25.00	ACUITE BBB- /Negative (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	56.50	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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