

Press Release

Cimechel Electric Company

July 13, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.95.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (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**) on the Rs.95.00 crore bank facilities of Cimechel Electric Company (CEC). The outlook is revised to '**Stable**' from '**Negative**'.

The rating reaffirmation considers the comfort drawn on the long track record of operations, stable business risk profile with a healthy order book position and steady profitability margins. Coupled to that, the firm has comfortable financial risk profile, adequate liquidity with moderate bank limit utilization and minimal unsecured loans from NBFC's. The rating, however, remains constrained on account of a decline in turnover in FY2020 mainly on account of the impact of COVID-19.

Outlook Revised to Stable

The revision in the outlook is majorly on account of improvement in the receivables position and comfortable working capital cycle. The firm has also repaid the unsecured loans taken from external parties.

About the Firm

Mumbai-based, CEC was established as a partnership firm in 1992. The firm started its commercial operations in 1998 and is engaged in EPC contracting-overhead electrification for the railways primarily. The firm is promoted by Mr. Viren R Shah and Mrs. Jyoti V Shah who have around four decades of experience in the aforementioned industry.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of CEC to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

CEC, promoted by Mr. Viren R Shah and Mrs. Jyoti V Shah has around four decades of experience in the said line of business. Mr. Viren R Shah has been associated with his family business 'Cimechel Engineering', which is also engaged in overhead electrification. During FY15 and FY16, CEC had also done rural electrification under Deendayal Upadhyaya Gram Jyoti Yojana Scheme for Madhya Pradesh government. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. The company for FY2020 has registered revenues of ~Rs.151 Cr (Prov) as against Rs.178 Cr for FY2019. The decline in revenues is due to the impact of COVID-19. CEC's order book position remains healthy at Rs.269 Cr as on date. Hence, the healthy order book position provides modest revenue visibility over the medium term.

Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability to scale up the operations across various cycles, however, operations are expected to remain impacted in Q1FY2021 due to the outbreak of COVID – 19.

• Diversified reputed client base with geographical diversification

The firm caters to reputed clientele like Central Railways, Western Railways, Maharashtra State Power Generation Co. Ltd., and Steel Authority of India. The firm offers services in Maharashtra, Gujarat, Rajasthan, Punjab, Haryana, Orissa, Jharkhand, etc. to name a few. The firm has already generated revenue of Rs.151 Cr (Prov) for FY2020. Further, the revenue of ~Rs.140 Cr is projected in FY2021. The revenues are projected low due to the impact of COVID-19.

• Efficient working capital management

CEC's working capital operations are efficiently managed as evident from Gross Current Asset (GCA) of 139 days (Prov) for FY2020 as against 130 days for FY2019. The high GCA days are majorly dominated by the inventory days. The inventory days were recorded at 67 days (Prov) as on March 31, 2020 as against 54 days as on March 31, 2019. The firm maintains an inventory policy of 30 to 45 days, however, due long gestation period of the projects, the inventory days stood high. The high inventory days reflect work-in-progress at the site. The debtor's days were recorded at 41 days (Prov) as on March 31, 2020 as against 53 days as on March 31, 2019. The working capital limits are utilized at ~70-90 percent through FY2020.

Weaknesses

• Partnership Constitution

CEC's financial risk profile is susceptible to inherent risk of capital withdrawal considering the partnership constitution of the firm. However, Acuité has not observed the same during the period under study.

• Profitability susceptible to fluctuations in input cost

The input cost i.e. power cost, labor cost and raw materials - iron, steel and cement are highly volatile in nature with labor cost constituting around ~77 percent of the total revenue. Hence, any adverse movement in input costs can impact profitability. The company reported EBITDA margin of 8.75 percent (Prov) in FY2020 as against 8.99 percent in the previous year and PAT margin of 3.34 percent (Prov) in FY2020 as against 4.01 percent in the previous year.

• 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: Adequate

Liquidity of CEC is adequate marked by moderate net cash accruals of Rs.5.27 Cr (Prov) in FY2020 against nil repayment obligations. Further, the cash accruals are expected to be at Rs.3.47 Cr to Rs.8.34 Cr for the medium term against nil repayment obligations. Further, the operations of the firm are efficiently managed as reflected by GCA days of 139 days (Prov) in FY2020. The working capital limits are utilized at ~70-90 percent through FY2020. The firm had unencumbered cash and bank balances of Rs.0.03 Cr (Prov) as on March 31, 2020. The current ratio stood moderate at 1.68 times (Prov) as on March 31, 2020. To support liquidity in the current situation, keeping in light the outbreak of COVID-19, the firm has approached for 10% enhancement (Rs.2 Cr) on the fund-based facilities from both the lenders which is expected to be received by next month. This is expected to add further comfort to manage the working capital operations.

Acuité believes that the liquidity profile is expected to remain adequate on account of adequate cash accruals against nil repayment obligations and lenders support in the form of enhancement to manage the working capital operations.

Rating Sensitivities

- Expectation of continued support from promoters helping to maintain the credit profile.
- Significant improvement in operating performance of the firm.

Material Covenants

None

Outlook: Stable

Acuité has revised the outlook of CEC to 'Stable' on account of a long track record of operations, experienced management and healthy relationships with customers and suppliers. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenues and operations while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of stretch in its working capital management leading to a deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	150.75	178.34
PAT	Rs. Cr.	5.04	7.15
PAT Margin	(%)	3.34	4.01
Total Debt/Tangible Net Worth	Times	1.91	2.44
PBDIT/Interest	Times	2.44	2.45

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

India Ratings & Research, vide its press release dated April 04, 2018 had denoted the rating of Cimechel Electric Co. as 'IND BB-/ IND A4+; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Apr-2019	Cash Credit	Long Term	25.00	ACUITE BBB- / Negative (Reaffirmed)
	Bank Guarantee	Short Term	56.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	13.50	ACUITE A3 (Reaffirmed)
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 Long Term Loan	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Proposed Short Term Loan	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- / Stable (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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