

Press Release

Hi-tech Engineers (HTE)

May 16, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	SMERA BB+/ Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as SMERA double B plus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs.34.00 crore bank facilities of Hi-Tech Engineers. The outlook is '**Stable**'.

Hi-Tech Engineers was established in 1993 as a partnership firm based out of Mumbai. The partners of the firm are Mr. Rameskumar Madhani and Mr. Mohansingh Deora. The firm has undertaken tenders for various contracts such as civil construction, repairs, and maintenance projects for Municipal Corporation of Greater Mumbai (MCGM). The firm is an "AA" class contractor without any limit.

Key rating drivers

Strengths:

Established track record of operations and experienced management

The partners have more than two decades of experience in the civil construction business. This has helped in developing good insight about the industry and has developed healthy relations with customers and suppliers.

Average financial risk profile

HTE has an average financial risk profile marked by adjusted net worth of Rs.27.11 crore as on 31 March, 2017 as against Rs.24.33 crore as on 31 March, 2016. The gearing stood low at 0.45 times as on 31 March, 2017 as against 0.18 times as on 31 March, 2016. Interest Coverage Ratio (ICR) stood at 2.03 times for FY2017 as against 2.52 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.55 times as on 31 March, 2017 as against 0.26 times as on 31 March, 2016.

Weaknesses:

Highly competitive landscape

The firm is engaged as a contractor in an industry which is marked by presence of several mid to big size players. The risk becomes more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated by the firm's established track record and experience.

Modest scale of operations due to tender based nature of business

The operations are considered to be at moderate level considering the fact that they are in existence for such a long period. The firm has achieved operating income of Rs.22.28 crore in FY2016-17 as compared to Rs.16.25 crore in FY2015-16 and Rs.8.62 crore in FY2014-15. The number of successful bids and the tenders being released in the financial year remains a key rating sensitivity factor.

Customer and geographic concentration risk

The entity undertakes civil construction majorly for MCGM. Majority of its income is derived from contracts given by MCGM. Thus, the revenues are totally dependent on the contracts awarded by the government. Further, a substantial number of orders to be executed by the firm are in Mumbai, thus, exposing it to geographical concentration risks.

Capital withdrawal risk

HTE is exposed to the risk of capital withdrawal considering its partnership constitution. However, no such instances have been observed during the period under study.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Hi-tech Engineers to arrive at the rating.

Outlook – Stable

SMERA believes that HTE will maintain a 'Stable' business risk profile over the medium term owing to its established operations and experienced management. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in revenues and margins while maintaining its operating cash flows. Conversely, the outlook may be revised to 'Negative' in case of significant delays in project implementation or project completion.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	22.28	16.25	8.62
EBITDA	Rs. Cr.	3.88	3.80	2.88
PAT	Rs. Cr.	1.84	1.31	0.63
EBITDA Margin	(%)	17.42	23.42	33.44
PAT Margin	(%)	8.26	8.07	7.31
ROCE	(%)	12.74	14.26	23.49
Total Debt/Tangible Net Worth	Times	0.45	0.18	0.14
PBDIT/Interest	Times	1.74	1.53	1.28
Total Debt/PBDIT	Times	2.81	1.18	1.04
Gross Current Assets (Days)	Days	233	210	428

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

None

Any other information:

Not Applicable

Applicable Criteria:

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Entities in Infrastructure Sector - <https://www.smerra.in/criteria-infrastructure.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:<https://www.smerra.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB+/ Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	24.00	SMERA A4+/ Stable

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ABOUT SMERA

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