

Press Release

Mastek Engineering

June 26, 2018

Rating Reaffirmed



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 6.40 cr |
| Long Term Rating | ACUITE B+ / Outlook: Stable |
| Short Term Rating | ACUITE A4 |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long term rating of '**ACUITE B+** (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.6.40 crore bank facilities of Mastek Engineering (ME). The outlook is '**Stable**'.

Mastek Engineering was established as a partnership firm in 2003. The firm is engaged in providing services of Gas Pipe Installation, SS Piping Structural fabrication, among others. ME is an ISO 9001:2008 certified firm. The firm caters to reputed players in the oil & gas industry including ONGC, GAIL, and IOCL among others.

Key Rating Drivers

Strengths

- **Experienced management**

ME has been in operation since 2003. The firm is managed by Mr. M. Suresh Kumar (Managing Partner and Founder) who has more than a decade of experience in the said field.

- **Growth in revenues and stable profitability**

ME has registered year on year CAGR of 31.61 percent (from FY2013 to FY2017). The revenues of the firm declined to Rs.14.63 crore in FY2017 as against Rs.19.71 crore in FY2016. However, the firm has registered revenue of Rs.21.54 crore in FY2018 (Provisional). Further, it has a healthy order book position of Rs.61.77 crore to be executed by June 2019. The PAT margins grew to 4.19 percent in FY2017 as against 3.46 percent in FY2016. The EBITDA margin stood at 7.26 percent in FY2017 as against 6.42 percent in FY2016.

Weaknesses

- **Average financial risk profile**

ME has average financial risk profile marked by tangible net worth of Rs.2.16 crore as on 31 March, 2017 as against Rs.1.87 crore as on 31 March, 2016. The debt to equity ratio stood at 0.72 times as on 31 March, 2017 as against 0.49 times as on 31 March, 2016. The debt of Rs.1.56 crore mainly consists of working capital borrowings of Rs.1.08 crore as on 31 March, 2017 and unsecured loans of Rs.0.42 crore and long term loan of Rs.0.06 crore. Interest Coverage Ratio (ICR) stood at 6.13 times for FY2017 as against 6.89 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 3.76 times for FY2017 as against 4.00 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.15 times as on 31 March, 2017 as against 2.17 times as on 31 March, 2016. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.43 times as on 31 March, 2017 as against 0.82 times as on 31 March, 2016.

- **Increased working capital intensity**

The Gross Current Asset (GCA) has increased from 61 days in FY2016 to 152 days in FY2017. The GCA days are mainly dominated by increased debtor days of 117 in FY2017 as against 17 in FY2016. The creditor days increased to 94 days in FY2017 as against 48 days in FY2016. The average cash credit utilisation stood at ~98 percent for the six months ending April 2018.

Analytical Approach

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

Outlook: Stable

Acuité believes that ME will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and working capital management.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 14.63 | 19.71 | 12.46 |
| EBITDA | Rs. Cr. | 1.06 | 1.27 | 1.04 |
| PAT | Rs. Cr. | 0.61 | 0.68 | 0.52 |
| EBITDA Margin | (%) | 7.26 | 6.42 | 8.34 |
| PAT Margin | (%) | 4.19 | 3.46 | 4.18 |
| ROCE | (%) | 33.03 | 45.08 | 37.49 |
| Total Debt/Tangible Net Worth | Times | 0.72 | 0.49 | 1.07 |
| PBDIT/Interest | Times | 6.13 | 6.89 | 4.67 |
| Total Debt/PBDIT | Times | 1.38 | 0.69 | 1.38 |
| Gross Current Assets (Days) | Days | 152 | 61 | 135 |

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>
- Financial Ratios And Adjustments -<https://www.acuite.in/criteria-fin-ratios.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-14.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. Crore) | Ratings/Outlook |
|-------------|---------------------------------|------------|--------------------|-----------------------------|
| 15-Jan-2018 | Cash Credit | Long Term | 1.00 | ACUITE B+ (Indicative) |
| | Term Loan | Long Term | 0.40 | ACUITE B+ (Indicative) |
| | Bank Guarantee | Short Term | 5.00 | ACUITE A4 (Indicative) |
| 26-Aug-2016 | Cash Credit | Long Term | 1.00 | ACUITE B+/Stable (Assigned) |
| | Term Loan | Long Term | 0.40 | ACUITE B+/Stable (Assigned) |
| | Bank Guarantee | Short Term | 5.00 | ACUITE A4 (Assigned) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|-------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.14 | ACUITE B+/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.26 | ACUITE B+/Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A4 (Reaffirmed) |

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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