

Power Engineering Corporation

January 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	4.00	CARE A4 (A Four)	Reaffirmed
Total Facilities	6.00 (Rs. Six crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Power Engineering Corporation (PEC) continue to remain constrained on account of small scale of operations, intense competition due to tender driven nature of business, customer and geographical concentration risk as well as proprietorship nature of its constitution.

The ratings, however, continue to derive strength from established presence of firm with experienced promoters, reputed clientele base, comfortable profit margins and solvency position with moderate liquidity position.

The ability of the entity to successfully bid for tenders along with improving its profitability and efficiently managing its working capital requirement are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations: PEC's scale of operations declined during FY18 and stood small as reflected by total operating income and capital employed of Rs.7.02 crore and Rs.8.72 crore respectively as on March 31, 2018. The small scale of operations limits the financial flexibility of the entity in time of any financial exigencies.

Proprietorship nature of its constitution: Being a proprietorship concern, it is exposed to the risk of withdrawal of capital by the proprietor on personal exigencies, dissolution of firm due to death and restricted financial flexibility due to inability to explore cheaper sources of finance leading to limited growth potential.

Customer and geographic concentration risk albeit reputed clientele: The firm's only customer is Maharashtra State Electricity Distribution Company Limited [MSEDCL- rated CARE A+ (SO); Stable], who contributed to 100% of the revenues of the firm in FY18. Association with reputed client reduces the counterparty risk. However, the customer concentration makes the firm vulnerable to the risk of a slowdown in the awarding of tenders and orders from this client. Furthermore, the firm undertakes contracts only in the state of Maharashtra, exposing it to geographical concentration risk.

Intense competition due to exposure to tender driven nature of business: PEC business is tender-based which is characterized by intense competition resulting in moderate operating margins for the firm. The growth of business depends entirely upon the firm's ability to successfully bid for tenders and emerge as the lowest bidder.

Key Rating Strengths

Established operations and experienced proprietor: PEC is promoted by Mr. Prabhakar Pannase (Proprietor). The long standing average industry experience of over two and half decades of the promoters has led to strong relationships with the customer and suppliers. The promoter is assisted by a team of well qualified and experienced professionals.

Comfortable profit margins: Despite of decrease in scale of operations, the PBILDT margin improved by 674 bps in FY18. The PAT margin of the entity moved in tandem with PBILDT and increased by 331 bps in FY18.

Moderate solvency: The capital structure of the entity remained comfortable days on account of lower reliance on external borrowings. Furthermore, due to comfortable profitability and modest debt profile, the debt coverage indicators of the entity remained moderate.

Comfortable Liquidity position: The liquidity position of the entity stood comfortable as indicated by current ratio of 1.48 times during FY18. Further due to stretched credit period to suppliers and payments received within a week from customers, the operating cycle of the entity remained comfortable with gross current asset days of 44 days during FY18

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

with funds majorly blocked in inventory. The working capital requirements are met by cash credit facility, average utilization of which remained moderate.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Company

Nagpur Based PEC is a proprietorship firm established is 1992 and is promoted by Mr. Prabhakar Pannase. The firm is a Registered as a Class-A Electrical Contractor in the State of Maharashtra. PEC is engaged in electric works that include installing sub-stations, fabrication and installation of pump connections to draw water as well as laying lines.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	17.94	7.02
PBILDT	1.19	0.94
PAT	0.75	0.53
Overall gearing (times)	1.12	0.95
Interest coverage (times)	2.84	2.34

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2022	1.03	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	4.30	CARE D; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	0.50	CARE D; ISSUER NOT COOPERATING*

*Issuer not cooperating; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	0.65	Suspended	-	-	1)Suspended (30-Dec-16)	1)CARE B+ (09-Jun-15)
2.	Fund-based - LT-Cash Credit	LT	3.80	Suspended	-	-	1)Suspended (30-Dec-16)	1)CARE B+ (09-Jun-15)
3.	Non-fund-based - ST-BG/LC	ST	1.00	Suspended	-	-	1)Suspended (30-Dec-16)	1)CARE A4 (09-Jun-15)
4.	Fund-based - LT-Term Loan	LT	0.28	Suspended	-	-	1)Suspended (30-Dec-16)	1)CARE B+ (09-Jun-15)
5.	Fund-based - LT-Term Loan	LT	1.03	CARE D; ISSUER NOT COOPERATING*	1)CARE D; Stable (7-Dec-18)	1)CARE BB-; Stable (06-Feb-18)	-	-
6.	Fund-based - LT-Cash Credit	LT	4.30	CARE D; ISSUER NOT COOPERATING*	1)CARE D; Stable (7-Dec-18)	1)CARE BB-; Stable (06-Feb-18)	-	-
7.	Non-fund-based - ST-BG/LC	ST	0.50	CARE D; ISSUER NOT COOPERATING*	1)CARE D; Stable (7-Dec-18)	1)CARE A4 (06-Feb-18)	-	-

*Issuer not cooperating; Based on best available information

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