

## Power Engineering Corporation

March 13, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	2.00	<b>CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; Issuer Not Cooperating)</b>	Issuer Not Cooperating; Revised from CARE B+; Stable (Single B Plus; Outlook: Stable) on the basis of best available information
Short term Bank Facilities	4.00	<b>CARE A4; ISSUER NOT COOPERATING* (A Four; Issuer Not Cooperating*)</b>	Issuer Not Cooperating; Based on best available information
<b>Total</b>	<b>6.00 (Rupees Six Crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Power Engineering Corporation (PEC) to monitor the ratings vide e-mail communications dated December 12, 2019, January 09, 2020, January 13, 2020, February 14, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on PEC's bank facilities will now be denoted as **CARE B; Stable/CARE A4; ISSUER NOT COOPERATING\***.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.***

The ratings have been revised on account of no due-diligence conducted with the banker, and non-availability of information due to non-cooperation by PEC with CARE's efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Further, the ratings assigned to the bank facilities of PEC are 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 comfortable liquidity position.

### Detailed description of the key rating drivers

*At the time of last rating on January 25, 2019 the following were the rating strengths and weaknesses*

#### Key Rating Weakness

**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.

**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.

**Customer and geographic concentration risk albeit reputed clientele:** The firm's only customer is Maharashtra State Electricity Distribution Company Limited (Maharashtra State Electricity Distribution Company Limited: rated CARE BBB+; Stable as on January 10, 2020), 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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

**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.

#### 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 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:

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[Rating Methodology of Construction Companies](#)

[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 (Audited)	FY18 (Audited)
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

**Any other information:** Not Applicable

**Status of non-cooperation with previous CRA:** ACUITE, vide it's press release dated June 24,2019,moved the ratings assigned to the bank facilities of PEC to issuer not cooperating category as the firm did not provide the information for undertaking the review.

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

**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-Cash Credit	-	-	-	2.00	CARE B; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	4.00	CARE A4; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	2.00	CARE B; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information	-	1)CARE B+; Stable (05-Mar-18) 2)CARE BB-; ISSUER NOT COOPERATING (18-Apr-17)	1)CARE B+; Stable (05-Mar-18) 2)CARE BB-; ISSUER NOT COOPERATING (18-Apr-17)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	4.00	CARE A4; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE A4 (25-Jan-19)	1)CARE A4 (05-Mar-18) 2)CARE A4; ISSUER NOT COOPERATING (18-Apr-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (05-Mar-18) 2)CARE A4; ISSUER NOT COOPERATING (18-Apr-17)	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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