

Rating Rationale

Quality Engineers and Contractors

5th October, 2017

Brickwork Ratings downgrades & reaffirms the rating for the Bank Loan Facilities of Quality Engineers and Contractors.

Particulars

Facility Rated	Previous Amount (Rs. Crs)	Present Amount (Rs Crs)	Tenure	Previous Rating	Rating
Fund Based					
OCC/OBDD (Sublimit of OCC)	7.00	7.00	Long Term	BWR B+ (Pronounced as BWR Single B Minus) Outlook-Stable	Downgraded at: BWR B (Pronounced as BWR Single B) Outlook-Stable
Proposed OCC/OBDD	-	5.00		-	Assigns at BWR B (Pronounced as BWR Single B) Outlook-Stable
Non Fund Based					
BG	4.50	4.50	Short Term	BWR A4 (Pronounced as BWR A Four)	Reaffirms at: BWR A4 (Pronounced as BWR A Four)
Proposed BG	-	1.50		-	Assigns at BWR A4 (Pronounced as BWR A Four)
Total	11.50	18.00		(INR Eighteen Crores Only)	

Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

Rationale/Description of Key Rating Drivers/ Rating sensitivities:

The revision of the rating factors in the substantial shortfall in the envisaged performance of the firm in terms of scale of operations and profitability, weak financial position of the company marked by high gearing ratio, stretched liquidity position due to elongated working capital cycle and moderate debt protection metrics. The above factors are partially offset by the long track record of operations and long standing experience of the partners in the electrical contracting business for railways.

Key Rating Determinants

Credit Concerns

- Weak financial position of the company marked by High gearing (TOL/TNW) of 3.64x in FY17 (provisional financials).
- Stretched liquidity position marked by current ratio of 1.10x in FY17 (provisional financials).
- Substantial shortfall in envisaged performance of the company in terms of scale of operations and profitability.
- Elongated working capital cycle marked by days receivable of 412 days in FY17 (provisional financials) as against 287 days in FY16.

Credit Strengths

- Long track record of operations with experienced Partners
- Comfortable order book position however timely realization of payments from Indian railways will be a critical factor for meeting the liquidity requirements of the firm in the future.

Going forward, the ability of the company to scale up its operations while maintaining its profitability margins and timely servicing of its debt obligations will be the key rating sensitivities.

Rating Outlook: Stable

BWR believes the Quality Engineers and Contractors business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company increases its scale of operations significantly along with maintaining its profitability margins. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

Quality Engineers & Contractors was a proprietary firm of Shree Satish S Mandaokar. The proprietor commenced business in 1989. It was converted into a partnership firm in the year 2011. The firm is engaged in executing tender based projects for Railways including Central Railway, Western Railway, Northern Railway, Kokan Railway, contracts generally pertains to Electrical Department of Railway.

Company Financial Performance

Key Financial Parameters	FY17 (Provisional Financials)	FY16
Net Sales	Rs. 4.86 Cr	Rs. 6.21 Cr
EBIDTA	Rs. 1.51 Cr	Rs. 1.57 Cr
PAT	Rs. 0.25 Cr	Rs. 0.35 Cr
Tangible Net worth	Rs. 3.10 Cr	Rs. 3.11 Cr
TOL/TNW	3.64 times	3.33 times
Current Ratio	1.10 times	1.12 times

The net sales has decreased by ~21% in FY17 (provisional financials) as against FY16 mainly on account of delays from Railways authorities in amending the contracts, and delays in payments from Indian Railways. The tangible net worth of the firm stood at Rs. 3.10 Crs as on 31-3-2017 (provisional financials).

Rating History for the last three years:

Sl. No.	Instrument/Facility	Current Rating (Year 2017)			Rating History		
		Type (Long Term /Short Term)	Amount (Rs Crs)	Rating	2016	2015	2014
1	OCC/OBDB (Sublimit of OCC)	Long Term	7.00	BWR B with stable outlook	BWR B+/A4/Stable	NA	NA
2	BG	Short Term	4.50	BWR A4			
3	Proposed OCC/OBDB	Long Term	5.00	BWR B with stable outlook	-		
4	Proposed BG	Short Term	1.50	BWR A4			
Total			18.00	(INR Eighteen Crores Only)			

NA: Not Available

Status of non-cooperation with previous CRA (if applicable): Reason and comments: Not Applicable

Any other information: NIL

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9, 30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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