

MITCON Consultancy and Engineering Services Limited

November 23, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Action
Bank Guarantee Limits	20.00	[ICRA]BBB@[ICRA]A3+@; Downgraded from [ICRA]BBB+@[ICRA]A2@; Continues to be on ratings watch with negative implications
Total	20.00	

@: under rating watch with negative implications

Material Event

MITCON Consultancy and Engineering Services Limited (MITCON) has announced its half yearly results on November 14, 2018. The company reported decline in operating income for H1 FY2019 to the extent of 30% against the same period last year and stood at Rs. 26.76 crore with operating loss of Rs. 0.09 crore and profit after tax (PAT) of Rs. 1.20 crore. During H1 FY2018, the company reported an operating income of Rs. 38.10 crore with operating profit of Rs. 2.91 crore and PAT of Rs. 1.67 crore.

Impact of the Material Event

The revision in the rating takes into account the sharp decline in sales to the extent of 30% in H1 FY2019, along with operating loss compared to H1 FY2018, on account of lower execution in H1 FY2019 on a modest opening order book, which subsequently led to lower absorption of fixed costs, leading to marginal operating loss in H1 FY2019. The debtor position also remains at elevated levels, with slow receivables movement and substantial debtors overdue for over six months. MITCON faces competitive pressures from new as well as established local, multi-national and boutique firms across business segments, which pose a key challenge to scale up its modest scale of operations in the consultancy sphere. The company has recently diversified into the engineering, procurement and construction (EPC) space for renewable energy projects and has invested in two solar projects of 12 MW and 5.5 MW respectively, the former was commissioned in FY2018. ICRA notes that MITCON has extended significant equity and advances in the commissioned solar project and has also lent corporate guarantee for the debt borrowed in the SPV. For the 5.5 MW upcoming solar project, similar support is expected. Though these investments provide diversification to revenue base, given that the EPC for the projects will be carried out by MITCON, commensurate returns and ability to consistently run the solar projects under desired parameters will be critical for the consolidated financial profile.

The rating, however, favourably factors in the established presence and track record of MITCON in providing consultancy services across diverse sectors. The company's financial profile is characterised by a conservative capital structure with a debt free status on books till H1 FY2019 at a standalone level. The liquidity profile of the company remains healthy, as reflected by free cash and sufficient liquid investments as of September 2018; although the same has moderated to an extent to fund its recent special purpose vehicles (SPVs) set up for solar power projects in Maharashtra.

The company's ability to scale up its EPC business in a profitable manner, generate commensurate returns from the investments in the SPVs, manage the risks associated with the same and efficiently reduce its working capital cycle, primarily through timely collections, will be the key rating sensitivities.

Outlook: On watch with negative implications

The ratings continue to remain on watch with negative implications as there were news reports, wherein Industrial Finance Corporation Limited (IFCI) had alleged that loans given out on the basis of valuation done by MITCON Consultancy and Engineering Services Limited (MITCON) as security/collateral, were found to be grossly overvalued. The case is being currently investigated by CBI, Bengaluru branch. ICRA is yet to ascertain the proper facts of the matter as well as potential impact of the event in terms of the business and financial implications which may arise, post which it will take a suitable rating action.

Key rating drivers

Credit strengths

Established presence and track record in providing consultancy services across diverse sectors - The company provides corporate solutions in power generation, energy efficiency, renewable energy, climate change and environmental management sectors. Over the years, it has diversified into providing services to banking, infrastructure and biotechnology sectors. Dr. Pradeep Bavadekar, the managing director has over 30 years of experience in the fields of manufacturing, sales and marketing, management and technical consultancy. The board of directors also comprise representations from the shareholding companies, namely SICOM Ltd. and Small Industries Development Bank of India.

Strong client profile including reputed names from public sector, funding agencies and private sector – In the consultancy segment, majority of the clients are Government bodies and the rest are private sector clients. In the training segment, MITCON provides environmental monitoring to private sector entities and also undertakes training programmes for the National Skill Development Corporation India. Further, MITCON is empanelled with the Bureau of Energy Efficiency as an Energy Service Company (ESCO), with Maharashtra Energy Development Agency (MEDA) as an Energy Planner and Energy Auditor under the Save Energy Programme of MEDA, and as an environmental impact assessment (EIA) consultant with Quality Council of India under the National Accreditation Board for Education and Training scheme (NABET scheme). MITCON is also empanelled with the Directorate of Economics and Statistics, Department of Science and Technology, Yashwantrao Chavan Maharashtra Open University (YCMOU), Regional Center for Urban and Environmental Studies (RCUES), Ministry of Urban Development, Government of India, Department of Food Processing and Department of Industries, as well as with more than 20 banks.

Debt free status as of September 2018 at standalone level; sound liquidity profile – The company on a standalone level continues to operate on a debt free status, with cash and liquid balances stood at Rs. 17.53 crore as of H1 FY2019, the same has come down from Rs. 19.50 crore as of H1 FY2018, because of advances to its new formed solar subsidiary. The cash and liquid balances continue to support the liquidity profile and will be key for the credit perspective going forward.

Credit weaknesses

Modest scale of operations with decline in top-line witnessed - MITCON has recorded an operating income of Rs. 26.76 crore in H1 FY2019 with a de-growth of ~30% from H1 FY2018 owing to slowdown in order execution and a marginal opening order book position of Rs. 3.53 crore at the end of FY2018. Profitability witnessed a declining trend, with lower absorption of fixed costs, due to lower top line leading to operating loss in H1 FY2019, compared to 7.6% operating margin in H1 FY2018.

Elevated debtor position with slow receivables movement – The receivables position is elongated, with more than 23% of outstanding receivables due for more than one year as on September 30, 2018 with debtor days standing at a high of 183 days as on H1 FY2019 as compared to 97 days in FY2018. With the sugar and power sectors being the major demand

drivers, the slack in business has translated into slower order execution as well as issues in collections, leading to debtors build up.

Competitive pressures from established local, multi-national and boutique firms in the domestic market a key challenge - The domestic design and project management consultancy industry is characterised by stiff competition from large as well as established domestic players, leading international consultants and numerous boutique firms present across business segments, which have achieved a reasonable market share in India. Additionally, the entry of these foreign consultants has led to a simultaneous increase in compensation levels across the industry. The heightened competitive intensity will continue to remain a concern for MITCON as it impacts the company's profitability and may result in higher attrition levels. Nevertheless, the Government's thrust towards infrastructure development could translate into inflow of fresh orders. ICRA also notes the Government's initiatives through various programmes like the National Skill Development Scheme, which will help in ramping up the training segment.

Commensurate return from investments in solar SPVs, as well as future funding support key to financial flexibility – The company has been diversifying into the EPC space for renewable energy projects, has invested in a 12 MW and 5.5 MW solar power project. MITCON has extended equity and advances in the commissioned solar project and also lent corporate guarantee for the debt borrowed in the SPV. For the upcoming solar project that will be executed under its subsidiary MITCON Solar Alliance Private Limited, similar support is expected. The extent of financial support will be a key in determining the financial flexibility of the company, going forward. Though these investments provide diversification to its revenue base, given that the EPC for the projects will be carried out by MITCON, commensurate returns and the ability to consistently run the solar projects under desired parameters will be critical for the consolidated financial profile.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

MITCON Consultancy and Engineering Services Private Limited was formed jointly by IDBI, IFCI, SICOM, MIDC, MSSIDC and various banks as a technical consultancy organisation in 1982. The company provides corporate solutions in power generation, energy efficiency, renewable energy, climate change and environmental management, banking, infrastructure and biotechnology sectors.

In H1 FY2018, MITCON formed a subsidiary company, MITCON Multiskills Ltd., in association with CMC Skills Private Limited, in which the company holds 51% of the paid up capital, i.e., Rs. 0.51 lakh (5,100 equity shares of Rs. 10 each). MITCON Megaskill Centers Private Limited, was formed in association with CMC Skills Private Limited, in which the company holds 26% of the paid up capital (2,600 equity shares of Rs. 10 each).

In H1 FY2019, it has formed a wholly owned subsidiary viz. MITCON Sun Power Limited (MSPL) with paid up capital of Rs. 0.01 crore. MSPL further formed subsidiary company MITCON Solar Alliance Private Limited (MSAPL) in association with Pudumjee Paper Products Limited. MSPL holds 50.10% of the paid up equity capital in MSAPL. It has also formed wholly owned subsidiaries named MITCON Valuers & Advisors Private Limited and MITCON Forum for Social Development with an investment of Rs. 0.01 crore in the equity capital of each. It has also acquired 49% stake in Versatile Insolvency Professional Services Private Limited and renamed the same as MITCON Insolvency Professional Services Private Limited by investing Rs. 1.10 crore.

In H1 FY2019, the company reported a net profit of Rs. 1.20 crore on an operating income of Rs. 26.76 crore, as compared to a net profit of Rs. 1.67 crore on an operating income of Rs. 38.10 crore in H1 FY2018.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	FY 2018
Operating Income (Rs. crore)	44.6	43.6	58.9
PAT (Rs. crore)	4.6	4.4	2.8
OPBDIT/ OI (%)	14.9%	10.4%	6.5%
RoCE (%)	7.8%	6.2%	4.6%
Total Debt/ TNW (times)	0.0	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	131.8	80.3	4.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017
1 Bank Guarantee	Long Term / Short Term	20.00	-	Nov 2018 [ICRA]BBB@/ [ICRA]A3+@	Mar 2018 [ICRA]BBB+/ [ICRA]A2 on watch with negative implications	Jan 2018 [ICRA]BBB+ (Stable)/ [ICRA]A2	-

@: under rating watch with negative implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]BBB@[ICRA]A3+@ Source: MITCON

@: under rating watch with negative implications

ANALYST CONTACTS

Mr. K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Mr. Suprio Banerjee
+91 22 6114 3443
suprio.b@icraindia.com

Ms. Preeti Kumaran
+91 22 6169 3356
preeti.kumaran@icraindia.com

Ms. Aprajita Singh
+91 22 6169 3364
aprajita.singh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents