

## MITCON Consultancy and Engineering Services Limited <sup>Revised</sup>

January 05, 2018

### Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Bank Guarantee Limits	20.00	[ICRA]BBB+ (Stable)/ [ICRA]A2;Assigned
<b>Total</b>	<b>20.00</b>	

### Rating action

ICRA has assigned a long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and a short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 20.00 crore bank guarantee facility of MITCON Consultancy and Engineering Services Limited (MITCON or the company)<sup>1</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating assigned favourably factors in the established presence and track record of MITCON in providing consultancy services across diverse sectors. ICRA notes its strong client profile including reputed names from the public sector, funding agencies and private sector, empanelment with various banks and training departments of the Government. The company's financial profile is characterised by a conservative capital structure with a debt free status on books till H1 FY2018 at a standalone level. The liquidity profile of the company is robust, as reflected by free cash and sufficient liquid investments as of March 2017; 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 ratings are, however, constrained by the modest scale of operations with overall range bound revenue as well as declining profitability levels in the traditional segments of consultancy and training over the last three years and the high working capital intensity arising from slow debtors' realisation. 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 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 a 12 MW solar project that was commissioned recently. The company is also looking to invest in two more such solar projects in Q4 FY2018, as a developer. 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 two upcoming solar SPVs, 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 run the solar projects under desired parameters will be critical for the consolidated financial profile.

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

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA believes MITCON will continue to benefit from the extensive experience of its promoters and its track record in providing consultancy services. The ongoing Government thrust towards infrastructure development and training programmes should also ensure a steady inflow of fresh orders. The outlook may be revised to Positive if there is substantial growth in revenue and profitability, and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative if revenues or cash accruals are lower than expected, or if there is significant (more than the anticipated levels) outflow of funds to support the newly formed SPVs, which may weaken the liquidity profile of the company.

## 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** – The company's consultancy segment currently generates ~67% of its total revenues, of which ~40% is generated by Government clients and the rest from private sector clients. In the training segment, which currently generates ~24% of the total revenues, 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.

**Venture into developing solar power projects by investing in SPVs, long-term and fixed tariff nature of power purchase agreement (PPA) provide revenue visibility and minimise off-take risk** – MITCON acquired a 49% stake in Krishna Windfarms Developers Private Limited (KWPL) in March 2017 for executing a 12 MW solar power project in Ahmednagar, Maharashtra. At a total project cost of ~Rs. 63 crore, the project was commissioned on August 11, 2017. The project was largely funded through a term loan of ~Rs. 42 crore for which MITCON has extended a corporate guarantee. The company has also extended an inter-corporate loan of ~Rs. 17 crore to KWPL. The EPC for this project generated a revenue of ~Rs. 23 crore in H1 FY2018 for MITCON. The company has a long-term PPA with Solar Energy Corporation of India for a value of Rs. 4.43 per unit for 25 years. MITCON will purchase the remaining (51%) stakes in KWPL for Rs. 6.66 crore, making it a wholly owned subsidiary by August 2018.

The company is also looking to invest Rs. 22.06 crore for developing a 4.6 MW solar power plant as a 74:26 joint venture (JV) with Brahmacorp Limited, who will also be the counterparty. The PPA is expected to be for a period of ~30 years at a realisable tariff of Rs. 5.2 per unit. MITCON is expected to fund equity to the extent of ~Rs 8.00 crore for this solar project, as well as provide financial support initially, if needed, until it is stabilised.

**Debt free status as of September 2017 at standalone level; sound liquidity profile** – The development of consultancy capabilities and business is directly proportionate to growth in economic and industrial development. Despite a slowdown in economic growth, over the FY2014–FY2017 period, the company exhibited steady revenue performance and a comfortable liquidity profile characterised by sufficient cash and liquid investments. The cash and liquid balances stood at Rs. 45.80 crore as of FY2017, which came down to Rs. 19.50 crore as of H1 FY2018, due to advances extended to the KWPL. Considering the immediate requirements of funding, the liquidity profile is expected to remain at a comfortable level in the near term.

## Credit weaknesses

**Modest scale of operations with stagnancy in top-line growth witnessed** - MITCON has recorded an operating income of Rs. 45.57 crore in FY2017 with a marginal decline of ~2% from the previous year owing to slowdown in the manufacturing sector and low credit off-take affecting the consultancy segment, which contributes to majority of the company's revenues. Profitability witnessed a declining trend owing to revenue and margins pressures in the training segment. The company's operating income has been range bound for the FY2015–FY2017 period. However, the company is projected to record double digit growth in the current year.

**High working capital intensity owing to high debtor days**– The working capital intensity of the company has remained high as reflected by NWC/OI of over 40% over the last four years. The receivables position is elongated, with more than 23% of outstanding receivables due for more than one year as on September 30, 2017. 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 solar project and is also looking to invest in two more such solar projects in Q4 FY2018 as a developer. 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 two upcoming solar SPVs, 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 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. MITCON offers feasibility studies, detailed project reports, techno economic feasibility reports, financial syndication, lender's engineer services, EIA, basic and detailed engineering, bid process management, project management, cluster development, technical/financial restructuring, energy audits, corporate debt restructuring, valuations, due diligence, qualitative and market research, assets/business valuation and consultation services in wind power project registration.

MITCON has been offering training under Government sponsored programmes, especially for socially disadvantaged sections since 1981. It provides skill-based vocational and entrepreneurship development training, corporate training as well as counseling services. The company has recently ventured into the EPC segment, since its traditional business segments have not been doing too well.

The company is headquartered in Pune, Maharashtra, and is present across the country through offices in Mumbai, New Delhi, Ahmedabad (Gujarat), Chennai, Bangalore and Nagpur (Maharashtra). The company has a sister concern, MITCON Foundation, which is managed by a common director and trustee.

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). In H1 FY2018, an SPV, 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 FY2017, the company reported a net profit of Rs. 4.42 crore on an operating income of Rs. 43.57 crore, as compared to a net profit of Rs. 4.61 crore on an operating income of Rs. 44.61 crore in the previous year.

## Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	44.61	43.57
PAT (Rs. crore)	4.61	4.42
OPBDIT/ OI (%)	14.93%	10.42%
RoCE (%)	7.78%	6.16%
Total Debt/ TNW (times)	0.00	0.00
Total Debt/ OPBDIT (times)	0.00	0.00
Interest coverage (times)	131.81	80.30
NWC/ OI (%)	44.51%	42.50%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Bank Guarantee	Long Term /Short Term	20.00		[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

### 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](http://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+(Stable)/ [ICRA]A2

Source: MITCON

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## 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](http://www.icra.in)

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