

January 21, 2016

Facilities	Amount (Rs. Crore)	Rating
Overdraft	3.00	SMERA A4+ (Assigned)
Bank Guarantee	12.00	SMERA A4+ (Assigned)

SMERA has assigned rating of '**SMERA A4+**' (**read as SMERA A four plus**) to the Rs.15.00 crore short-term bank facilities of Deshmukh and Company (DC). The rating is constrained by the decline in operating income in FY2014-15 and high geographical concentration risk. However, the rating derives support from the firm's healthy financial risk profile, healthy order book and experienced promoters.

DC's healthy financial risk profile is marked by debt-to-capital ratio of one times and interest coverage ratio of 9.66 times in FY2014-15. The operating margins have increased to 11.65 percent in FY2014-15 from 10.44 percent in FY2013-14. The firm has a healthy order book position with pending orders worth Rs.100.00 crore that are likely to be executed in the next two years. Besides, the promoters have over three decades of experience in the civil construction business. However, DC has reported operating income of Rs.50.83 crore in FY2014-15 as compared with Rs.60.15 crore in FY2013-14.

The firm's business is confined only to Maharashtra and hence it is exposed to geographical concentration risk. Besides, impact of economic cycles or reduction in the budgetary allocation for infrastructure development for the state may adversely affect the firms' cash flow.

Rating Sensitivity Factors

- Sustained growth in revenues and profitability
- Ability to acquire new projects

About the Firm

DC, established in 1981 by Mr. Balasaheb Deshmukh, is a Maharashtra-based class I A contractor. The firm undertakes construction of buildings, bridges and roads for government authorities such as the Public Works Department (PWD) of Maharashtra, National Highways and Pradhan Mantri Gram Sadak Yojna in Maharashtra.

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