

Press Release

07 November, 2017

Deshmukh and Company (DC)

Rating Assigned & Reaffirmed



Total Bank Facilities Rated *	Rs. 15.00 cr
Long Term Rating	SMERA BB+/ Outlook: Stable
Short Term Rating	SMERA A4+

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating to '**SMERA BB+**' (read as **SMERA double B plus**) and assigned the short-term rating to '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.15.00 bank facilities of Deshmukh & Company (DC). The outlook is '**Stable**'.

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 Authority of India and Pradhan Mantri Gram Sadak Yojana in Maharashtra.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

Its presence in construction business for over three decades has helped the company forge a healthy relationship with suppliers.

Healthy Order book position

DC has a healthy order book position marked by current orders in hand of around Rs.250.00 crore as on date. Further, DC reported revenue of Rs. 77.47 crore in FY2016 and Rs. 50.83 crore in FY2015.

Comfortable financial risk profile

The financial risk profile of DC is marked by net worth of Rs.12.20 crore as on 31 March, 2016. It was Rs.7.64 crore as on 31 March, 2016. The gearing stood at 1.00 times as on 31 March, 2016 as against 1.19 times as on 31 March, 2016. The total debt of Rs.12.18 crore as on 31 March, 2016 consists of term loan of Rs.7.71 crore and working capital facilities of Rs.4.47 crore. The interest coverage ratio stood at 9.53 times for FY2015-16 as against 9.66 times for FY2014-15. The DSCR stood at 2.42 times for FY2015-16 as against 9.66 times for FY2014-15. Further, SMERA believes that the financial risk profile of the company will remain comfortable in the absence of major debt funded capex.

Weaknesses

Working capital intensive business

DC operates in a working capital intensive business marked by Gross Current Asset (GCA) days of 123 for FY2015-16 as against 104 for FY2014-15. The creditor days stood high at 191 for FY2015-16. Further, the working capital limits have been utilised at around 85 per cent in the last three months ending March 2017.

Moderate scale of operations due to tender based nature of business

The operations of the DC are considered to be at moderate levels despite the firm being in the construction business for the past four decades. The company has achieved operating income of Rs. 77.47 crore in FY 2015-16 as compared to Rs. 50.83 crore in FY 2014-15. As the entity is in the civil construction business, revenue depends on the number of successful bids and the tenders being released in the financial year.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of DC to arrive at the rating.

Outlook: Stable

SMERA believes that SMPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of sustained improvement in the operating scale while maintaining a comfortable liquidity position and healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profitability or deterioration in the financial risk profile.

About the rated entity - Key financials

The firm reported Profit after Tax (PAT) of Rs. 5.41 cr on operating income of Rs. 77.47 cr in FY2015-16 as compared with PAT of Rs. 3.94 crore on operating income of Rs.50.83 cr in FY2014-15. The net worth stood at Rs.12.20 crore as on March 31, 2016 as against Rs.7.64 cr in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure entities - <https://www.smera.in/criteria-infrastructure.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History

Date	Name of Instrument/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
21 Jan, 16	Overdraft	Short Term	3.00	SMERA A4+ (Assigned)
	Bank Guarantee	Short Term	12.00	SMERA A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00 [^]	SMERA BB+ / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA A4+ (Reaffirmed)

[^]As per client's request, SMERA has assigned a long term rating

Contacts:

Analytical	Rating Desk
<p>Vinayak Nayak, Head –Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in</p> <p>Kashish Shah Rating Analyst Tel: 022-67141152 Email: kashish.shah@smera.in</p>	<p>Varsha Bist, Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in</p>

ABOUT SMERA

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