

Press Release

Gannon Dunkerly & Company Limited (GDCL)

April 20, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 3124.01 Cr
Long Term Rating	SMERA A-/Stable
Short Term Rating	SMERA A2+

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA A-**' (**read as SMERA A minus**) and short term rating of '**SMERA A2+**' (**read as SMERA A two plus**) on the Rs.3124.01 cr bank facilities of Gannon Dunkerly & Company Limited (GDCL). The outlook is '**Stable**'.

GDCL, incorporated in 1924, is a Mumbai-based company engaged in civil construction, construction of industrial and infrastructure units, roads, irrigation projects to name a few.

List of key rating drivers and their detailed description

Strengths

Extensive experience in execution of infrastructure projects

GDCL incorporated in 1929 is a leading player engaged in civil construction, construction of industrial units, irrigation and hydroelectric projects and water treatment plants. The company has a reputed client base including JSW Steel Limited, JSW Cement Limited, Reliance Industries Limited, JK Lakshmi Cement among others. The company also caters to government entities such as Madhya Pradesh Road Development Corporation Limited (MPRDCL), National Buildings Construction Corporation Limited, Maharashtra State Electricity Distribution Company Limited (MSEDCL), National Highways Authority of India (NHAI), NTPC etc through the bidding process.

The company has executed over ~3000 projects across geographies and segments in India including power, steel, refinery, chemicals, railways and others thus maintaining a diversified portfolio both regionwise and industrywise. The company has executed several marquee projects including the Jamnagar refinery (Reliance Industries Limited), Dankuni Piling & Structural Work (Ultra Tech Cement), Jamul Pre-heater Structural Work and Silos (ACC Cement).

Certain key members of the management have been associated with the company for over four decades. Mr. KJ Rawal, the Managing Director is associated with the company since three decades.

SMERA believes that GDCL's established presence and its track record of executing large projects across diverse segments will support the business risk profile of the company.

Strong revenue visibility

The company has unexecuted order-book of Rs.7755.49 cr (across industries) as on September 30, 2016 which is about three times its revenue in FY2016 (Rs.2329.33 cr). Besides, the government's thrust on infrastructure evident from the allocation of ~Rs.3.96 lakh cr for FY2018 in the Union Budget is expected to further provide a boost to players like GDCL.

SMERA believes that the healthy order book and much emphasis on infrastructure development by the government will support revenue growth over the near to medium term.

Weaknesses

Moderate financial risk profile and declining profitability

The networth stood healthy at Rs.662.83 cr on March 31, 2016. The company's gearing continued to remain at moderate levels during the period FY2014 to FY2016. The gearing stood at 1.21 times as on March 31, 2016. The total debt of Rs.798.72 cr includes working capital borrowings and long term borrowings of Rs.560.83 cr and Rs.174.97 cr respectively apart from CPLTD of Rs.62.92 cr.

However, the company has extended advances to the extent of Rs.202.83 cr and corporate guarantees of Rs.108.00 cr to its group concerns as on March 31, 2016. The adjusted gearing (after deducting advances from networth) stands moderately high at ~1.74 times. The Auditor's Report (FY2016) notes the non-charging of interest on advances/inter corporate deposits of Rs.636.75 cr. The company does not expect major incremental exposure to its subsidiaries/JVs/associates going ahead.

The TOL/TNW also stood moderately high at 3.94 times as on March 31, 2016, primarily on account of high mobilisation advances and creditors.

The company registered declining operating profitability during FY2014 to FY2016. The operating margins fell to 8.30 per cent in FY2016 from 10.57 per cent in FY2014. Subdued expansion plans in the private sector led to focus of the company towards undertaking orders from government departments. The increased competitive intensity in the government segment contributed to margin compression. The company's profitability has been further affected by losses incurred in two of its associate publication houses.

The net cash accruals (PAT plus Depreciation) declined in FY2016 to Rs.69.70 cr compared to Rs.93.83 cr in FY2015. The high net cash accrual of Rs.93.83 cr during FY2015 was on account of extraordinary income earned from sale of asset of Rs.23.04 cr. The interest coverage ratio stood moderate at 1.92 times in FY2016.

Further, SMERA also notes the ceased Organisation for Development of Administrative Centre (ODAC) project for construction of 3,600 housing units and related infrastructure facilities in Libya due to political unrest in the country. The company had incurred around ~Rs.120.00 cr on the said project. However, going ahead, any developments with respect to the Libya project will be a key monitorable.

SMERA believes that the level of indebtedness, exposure to group companies and movement of profitability indicators will be key credit monitorables over the medium term.

Working capital intensive operations

GDCL is engaged in the execution of large sized projects spread over a period of around three years. The likelihood of time and cost overruns in such projects due to delay in receipt of approvals such as right of way, environment clearances and other related approvals is high. The working capital cycle of players like GDCL tends to be high on account of high inventory and receivable days.

GDCL has high GCA of 378 days in FY2016 (as against 373 days in FY2015) mainly on account of high inventory and dues from customers of 245 days in FY2016 (as against 244 days in FY2015). The working capital requirement is supported by credit extended by suppliers (around 137 days in FY2016) and advances received from customers. Apart from fund based limits, the company is largely dependent on bank guarantees to bid for projects and mobilise advances from customers. The average cash credit utilisation stood high at ~80 per cent during April to December 2016.

Considering the high working capital intensity, events like deferment of projects by the counterparty or delays in realisation of receivables from major customers will have a bearing on the working capital cycle and liquidity.

SMERA believes that efficient working capital management will be crucial to maintain a stable credit profile of GDCL.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that GDCL will maintain a stable outlook in the medium term on account of its established position in the infrastructure segment coupled with healthy order book position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' if the company registers lower-than-expected net cash accruals or if the financial risk profile deteriorates due to elongated working capital cycle or increased exposure to group entities.

About the Rated Entity

GDCL, incorporated as a private limited company in 1924 was converted into a public limited company in 1948 subsequent to being taken over by the Morarka Group. GDCL undertakes civil construction, construction of industrial units, executes irrigation and hydroelectric projects and sets up water treatment plants. The client base of the company largely includes heavyweights from the engineering, power, chemicals and petrochemical sectors.

For FY2015-16, GDCL reported net profit after tax (PAT) of Rs.33.51 cr on operating income of Rs.2329.33 cr, as compared to net profit after tax (PAT) of Rs.48.05 cr on operating income of Rs.2128.14 cr in FY2014-15.

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

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities**	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	251.00	SMERA A-/Stable (Assigned)	-	-	-	-	-	-
Corporate Loan	LT	40.00	SMERA A-/Stable (Assigned)	-	-	-	-	-	-
Working Capital Demand Loan	ST	10.00	SMERA A2+ (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	2118.60	SMERA A2+ (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	110.00	SMERA A2+ (Assigned)	-	-	-	-	-	-
Bank Guarantee/Letter of Credit	ST	206.00	SMERA A2+ (Assigned)	-	-	-	-	-	-
Project Specific Bank Guarantee	ST	349.15	SMERA A2+ (Assigned)	-	-	-	-	-	-

Proposed Fund Based Facility	LT	39.26	SMERA A- /Stable (Assigned)	-	-	-	-	-	-
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**The facilities sanctioned are a consortium arrangement.

**The non-fund based limits have one way interchangeable to fund based limits.

**LC/BG is interchangeable/has sublimits

***Annexure – Details of instruments rated:**

Name of the Facilities**	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	NA	NA	NA	251.00	SMERA A- /Stable (Assigned)
Corporate Loan	NA	NA	NA	40.00	SMERA A- /Stable (Assigned)
Working Capital Demand Loan	NA	NA	NA	10.00	SMERA A2+ (Assigned)
Bank Guarantee	NA	NA	NA	2118.60	SMERA A2+ (Assigned)
Letter of Credit	NA	NA	NA	110.00	SMERA A2+ (Assigned)
Bank Guarantee/Letter of Credit	NA	NA	NA	206.00	SMERA A2+ (Assigned)
Project Specific Bank Guarantee	NA	NA	NA	349.15	SMERA A2+ (Assigned)
Proposed Fund Based Facility	NA	NA	NA	39.26	SMERA A- /Stable (Assigned)

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Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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