

Press Release

Gannon Dunkerly & Company Limited

January 25, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 3,135.01 Cr.
Long Term Rating	ACUITE D (Downgraded from ACUITE BBB/Negative)
Short Term Rating	ACUITE D (Downgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE D**' (**read as ACUITE D**) from **ACUITE BBB** (**read as ACUITE triple B**) and short term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 3135.01 crore bank facilities of Gannon Dunkerly & Company Limited (GDCL).

The downgrade is in view of persistent irregularities in its working capital borrowings on account of stretched liquidity position.

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 company is engaged in the execution of large construction contracts involving engineering, procurement and construction (EPC) projects for more than nine decades. The client base of the company largely includes heavy weights from the engineering, power, chemicals and petrochemical sectors.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the GDCL for arriving at the rating.

Key Rating Drivers

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 and 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) and NTPC through the bidding process. GDCL 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 region-wise and industry-wise. 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, Managing Director, has been associated with the company since three decades. Acuité believes that GDCL's established presence in the infrastructure sector and its track record of executing large projects across diverse segments will support the business risk profile of the company.

Weaknesses

- **Delays in debt servicing**

GDCL has been facing significant liquidity pressures on account of deterioration in its operating performance which has impeded its ability to meet its debt obligation in a timely manner. The account has been persistently irregular in servicing its interest payments, invocations of bank guarantee and devolvement in letter of credit.

- **Decline in revenue and profitability**

The company had slower execution of projects on account of lack of clarity on the implementation of GST. The operating income declined by ~15 percent to Rs.2326.00 crore in FY2018 (Provisional) as compared to Rs.2704 crore in FY2017. Decrease in the turnover is mainly on account of GST impact on the on-going projects, since prior to implementation of GST most of the contracts undertaken by the company were exempt from tax. The company's profitability also witnessed a downward trend as EBITDA margin declined from 8.90 percent in FY2015 to 5.63 percent in FY2018 (Provisional). In line with EBITDA, PAT margins also declined to 5.63 percent in FY2018 (Provisional) from 8.90 percent in FY2015. Subdued expansion plans in the private sector led the company to focus towards undertaking orders from government departments. The increased competitive intensity in the government segment also contributed to margin compression. Acuité believes that improving the revenue and profitability by the company will be a key rating sensitivity.

- **Deterioration in working capital cycle**

Deterioration in the company's working capital can be witnessed by its high Gross Current Asset (GCA) days of 440 in FY2018 (Provisional) against 359 in FY2017. Elongation is mainly on account of increase in collection period from 156 days in FY2017 to 174 days in FY2018 (Provisional) and increase in inventory holding period from 56 days in FY2017 to 97 days in FY2018 (Provisional). The working capital requirement is supported by credit extended by suppliers of around 161 days in FY2018 (Provisional) and mobilisation advances received from customers. Apart from fund based limits, the company is largely dependent on bank guarantees to bid for projects.

The average cash credit utilisation stood high at ~80 percent during last six months ended July 2018. 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 environment clearances and other related approvals are high. Considering the high working capital intensity, events such as 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. Acuité believes that working capital intensive nature of operations will continue to impact credit profile over the medium term and efficient management of working capital will be crucial to maintain a stable credit profile of the company.

- **Declining coverage indicators**

GDCL's net worth stood stagnant at Rs.660.97 crore on March 31, 2018 (Provisional) against Rs.660.38 crore on March 31, 2017. The company's gearing continued to remain at moderate levels during the period FY2015 to FY2018 (Provisional). The gearing stood at 1.45 times as on March 31, 2018 (Provisional). The total debt of Rs.960.42 crore includes working capital borrowings and long term borrowings of Rs.678.21 crore and Rs.175.16 crore respectively apart from CPLTD of Rs.95.91 crore and interest-free unsecured loans of Rs.11.14 crore (against Rs.20.69 crore as on March 31, 2017). Net cash accruals declined to ~Rs.30.00 crore in FY2018 (Provisional) from Rs.72.00 crore in the previous year against debt obligation of Rs.95.00 crore. The company was able to meet its debt obligation by increasing its working capital cycle and stretching its payables. However, the company had unencumbered cash balance of ~Rs.70.00 crore as on March 31, 2018.

There has been significant deterioration in the coverage indicators as interest coverage ratio declined to 1.27 times in FY2018 (Provisional) from 2.13 times in FY2017. The TOL/TNW also stood moderately high at 3.96 times as on March 31, 2018 (Provisional), primarily on account of high mobilisation advances and creditors. Net debt to EBITDA increased to 6.71 times in FY2018 (Provisional) from 3.61 times in FY2017. NCA/TD declined to 0.03 times in FY2018 (Provisional) vis-à- vis 0.08 times in FY2017. Further, Acuité 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 has already incurred ~ Rs.120.00 crore on the said project. However, going ahead, any developments with respect to the Libya project will be a key monitorable.

Acuité believes that any further decline in the financial risk profile of the company on the back of increase in the level of indebtedness, exposure to group companies and movement of profitability indicators will be key rating sensitivity over the medium term.

Liquidity Position:

GDCL is under liquidity pressures marked by net cash accruals of Rs.30.00 crore and Rs.72.00 crore in FY2018 (Provisional) and FY2017, respectively. The sharp decline in net cash accruals are mainly on account of the subdued operating margins of 5.63 percent in FY2018 (Provisional) as against 7.72 percent during FY2017. Further, the deterioration in the working capital cycle during the past two fiscals as indicated by an increase in working capital cycle to 440 days as on March 31, 2018 (Provisional) from 337 days as on March 31, 2017. Acuité expects that the pressures on its revenue and margins are expected to continue over the near to medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	2326.57	2704.54	2524.61
EBITDA	Rs. Cr.	131.09	208.68	186.50
PAT	Rs. Cr.	2.55	38.87	46.32
EBITDA Margin	(%)	5.63	7.72	7.39
PAT Margin	(%)	0.11	1.44	1.83
ROCE	(%)	6.92	13.83	11.78
Total Debt/Tangible Net Worth	Times	1.45	1.38	1.30
PBDIT/Interest	Times	1.27	2.13	2.02
Total Debt/PBDIT	Times	6.71	3.61	3.81
Gross Current Assets (Days)	Days	440	359	337

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Aug-2018	Cash Credit I	Long Term	28.00	ACUITE BBB / Negative (Downgraded)
	Cash Credit II	Long Term	35.00	ACUITE BBB / Negative (Downgraded)
	Cash Credit III	Long Term	100.00	ACUITE BBB / Negative (Downgraded)
	Term Loan	Long Term	22.00	ACUITE BBB / Negative (Downgraded)
	Cash Credit IV	Long Term	10.00	ACUITE BBB / Negative (Downgraded)

Cash Credit V	Long Term	5.00	ACUITE BBB / Negative (Downgraded)
Cash Credit VI	Long Term	36.00	ACUITE BBB / Negative (Downgraded)
Cash Credit VII	Long Term	15.00	ACUITE BBB / Negative (Downgraded)
Cash Credit VIII	Long Term	10.00	ACUITE BBB / Negative (Downgraded)
Cash Credit IX	Long Term	5.00	ACUITE BBB / Negative (Downgraded)
Cash Credit X	Long Term	7.00	ACUITE BBB / Negative (Downgraded)
Cash Credit XI	Long Term	10.00	ACUITE BBB / Negative (Assigned)
Working Capital Demand Loan	Short Term	10.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	100.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	260.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	1040.00	ACUITE A3+ (Downgraded)
Letter of Credit	Short Term	40.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	90.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	116.60	ACUITE A3+ (Downgraded)
Letter of Credit	Short Term	20.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	277.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	125.00	ACUITE A3+ (Downgraded)
Letter of Credit	Short Term	10.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	40.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	75.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	166.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	8.00	ACUITE A3+ (Downgraded)
Letter of Credit	Short Term	40.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	348.53	ACUITE A3+ (Downgraded)
Bank Guarantee	Short Term	80.38	ACUITE A3+ (Assigned)
Proposed Bank Facility	Long Term	5.50	ACUITE BBB / Negative (Downgraded)
Cash Credit	Long Term	251.00	ACUITE A- / Stable

16-May-2017	Term Loan	Long Term	40.00	(Reaffirmed)
	Working Capital Demand Loan	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2118.60	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	110.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	206.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	349.15	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	39.00	ACUITE A- / Stable (Withdrawn)
	Proposed Bank Facility	Long Term	0.26	ACUITE A- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	50.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	251.00	ACUITE A- / Stable (Assigned)
20-Apr-2017	Term Loan	Long Term	40.00	ACUITE A- / Stable (Assigned)
	Working Capital Demand Loan	Short Term	10.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	2118.60	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	110.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	206.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	349.15	ACUITE A2+ (Assigned)
	Proposed fund based	Long Term	39.26	ACUITE A- / Stable (Assigned)

***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-1	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE D (Downgraded)
Cash Credit-2	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE D (Downgraded)
Cash Credit-3	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE D (Downgraded)
Term loan-1	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE D (Downgraded)
Cash Credit-4	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE D (Downgraded)
Cash Credit-5	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE D (Downgraded)
Cash Credit-6	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE D (Downgraded)
Cash Credit-7	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE D (Downgraded)

Cash Credit-8	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE D (Downgraded)
Cash Credit-9	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE D (Downgraded)
Cash Credit-10	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE D (Downgraded)
Cash Credit-11	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE D (Downgraded)
Working capital demand loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	260.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1040.00	ACUITE D (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	116.60	ACUITE D (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	277.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	125.00	ACUITE D (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE D (Downgraded)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	166.00	ACUITE D (Downgraded)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE D (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE D (Downgraded)
Project specific Bank guarantee	Not Applicable	Not Applicable	Not Applicable	348.53	ACUITE D (Downgraded)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	80.38	ACUITE D (Downgraded)
Proposed Long term facility	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE D (Downgraded)

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