Press Release

D Thakkar Constructions Private Limited

31 August, 2017

Rating Assigned

Total Bank Facilities Rated	Rs. 291.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB-' (read as SMERA triple B)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs. 291.00 crore bank facilities of D Thakkar Constructions Private Limited (DTCPL). The outlook is **'Stable'**.

DTCPL, incorporated in 2004, is engaged in execution of contracts for railways, irrigation, water supply schemes, tunnels, river barrage, roads and bridges. DTCPL also owns specialized equipment such as piling rigs and diaphragm wall machinery which it leases out to other companies. The company has reputed clientele such as Central Ratilway, Madhya Pradesh Government, Vishakhapatnam Port Trust, Bhabha Atomic Research Centre and Bharat Heavy Electrical Limited and others.

List of key rating drivers and their detailed description:

Strengths:

Established track record of operations with experienced management: The promoter, Mr. Praveen Thakkar has been engaged in the civil construction business since 1980. Prior to promoting DTCPL in 2004, Mr. Praveen Thakkar was a part of SN Thakkar, Partnership firm, established in 1980, engaged in civil construction work. Mr. Jigar Pravin Thakkar, Director has more than a decade's experience in executing EPC contracts. Mr. Vishal Thakkar possesses more than 15 years experience in the same domain. Mr. Yogen B Lal, Chief Executive Officer, carries with him more than two decade experience in the same domain. DTCPL has executed projects in irrigation, building roads and bridges, fabrication and erection on an engineering, procurement and construction basis. Further, the company is also engaged in construction of specialised structures like Diaphragm Walls (D-Walls) for underground metros, dams and barrages.

SMERA believes, DTCPL will benefit from its promoters' extensive experience in the industry for timely execution of projects with precision.

Healthy orderbook spread across diverse segments: The revenues of the company are moderate with Rs. 410.28 crore in FY2016-17 as compared to Rs. 455.89 crore for FY2015-16 and Rs. 421.27 crore for FY2014-15. The revenues of the company can be bifurcated in to revenues from construction, revenues from hire charges and others which includes sale of material. For FY2016-17, revenues from construction accounted to 61.74 per cent (79.31 per cent for FY2015-16), hire charges accounted to 3.28 per cent (3.09 per cent for FY2015-15) of the total revenues and balance from others. As on August 2017, DTCPL has a healthy order book position of Rs. 1830.66 crore out of which orders worth Rs. 1171.02 crore stand unexecuted as on August 2017. The company is expected to book revenues to the tune of Rs. 500.00 crore for FY2017-18. The orders in hand are from a diversified clientele with projects spread nationwide. The order book includes orders from "Water Resources Department, Yavatmal, Water Resources Department, Washim, National Thermal Power Corporation (NTPC) and others. The current orders in hand also include order worth Rs. 90.00 crore for construction of canal in Uganda, funded by African Development Bank. The company's order book gradually has diversified in segments other than irrigation which includes railways, roads and metro constructions.

SMERA believes with a healthy unexecuted order book position of Rs. 1171.02 crore as on August, 2017 and demonstrated capabilities of the management in executing projects, the company will be able to register stable revenue growth.

Above average financial risk profile: The financial risk profile of the company is above average marked by networth of Rs. 236.63 crore as on March 31, 2017 (provisional) as compared to Rs. 222.80 crore as on March 31, 2016. Total debt of Rs. 276.52 crore as on March 31, 2017 which includes unsecured loans from promoters to the tune of Rs. 89.98 crore, equipment loans of Rs. 88.18 crore and working capital facilities of 74.35 crore. DTCPL has a prudent capital structure with total outside liabilities to tangible networth (TOL/TNW) stood at 2.12 times as on March 31, 2017 as compared to 2.06 times as on March 31, 2016. The coverage indicators like interest coverage ratio (ICR) stood at 1.86 times for FY2016-17 as compared to 1.95 times the previous year. The debt service coverage ratio (DSCR) stood at 1.15 times for FY2016-17 as compared to 1.14 times for FY2015-15. The operating margins of the company during the period under study (FY2014 to FY2017) have been healthy. For FY2016-17 the company registered EBIDTA margins of 17.90 per cent as compared to 19.22 per cent in the previous year. The net cash accruals for FY2016-17 stood at Rs. 30.14 crore as compared to Rs. 34.37 crore for FY2015-16.

SMERA believes that DTCPL will be able to maintain an above average financial risk profile based on healthy net cash accruals expected in the future.

Weaknesses

Exposure of DTCPL to timely execution of contracts: The company is exposed to risks in the infrastructure segment such as delays in receipt of approvals, which may impact its operational cash flows. The timely flow of orders and their execution are critical to the maintenance of a steady revenue growth. For FY2015-16 the company registered revenue of Rs. 455.89 crore as compared to Rs. 410.28 crore for FY2016-17 (provisional).

High working capital intensive nature of operations: DTCPL is operating in an industry which is predominantly working capital intensive. The gross current assets (GCA) of the company stood at 403 days for FY2016-17 as compared to 321 days for FY2015-16 and 284 days for FY2014-15. The stretched GCA days are constituted by 278 inventory days and 125 debtor days for FY2016-17 as compared to 244 inventory days and 77 debtor days the previous year. Out of the total debtors of Rs. 140.70 crore as on March 31, 2017 (Rs. 96.53 crore as on March 31, 2016), debtors more than 6 months stood at Rs. 32.15 crore (Rs. 34.08 crore as on March 31, 2016). Any delays in the receipt of payment from customers which are majorly state/central governments or public sector units could lead to stretched receivables. However, to maintain liquidity in the business the promoters have been infusing unsecured loans in the company. As on March 31, 2017, unsecured loans from promoters stood at Rs. 89.98 crore and are expected to remain in the business.

SMERA believes any elongation in the working capital cycle of the company will result in higher funding requirements both from external sources and by way of unsecured loans.

Key Rating Sensitivities

- Healthy order book position
- Increase in scale of operations while maintaining stable profit margins
- Efficient working capital management

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

Applicable Criteria

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

Outlook - Stable

SMERA believes DTCPL will maintain a stable business risk profile in the medium term on account of its experienced management. 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' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

About the Rated Entity

For FY2016-17 the company registered profit after tax (PAT) of Rs. 13.84 crore on an operating income of Rs. 410.28 crore (provisional) as compared to PAT of Rs. 16.96 crore on an operating income of Rs. 455.89 crore. The company's networth stood at Rs. 236.63 crore as on March 31, 2017 (provisional) as compared to Rs. 222.80 crore as on March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	NA	NA	NA	70.00	SMERA BBB-/Stable (Assigned)
Standby Line of Credit	NA	NA	NA	5.00	SMERA BBB-/Stable (Assigned)
Bank Guarantee	NA	NA	NA	160.00*	SMERA A3 (Assigned)
Letter of Credit	NA	NA	NA	48.00	SMERA A3 (Assigned)
Proposed	NA	NA	NA	7.00	SMERA A3 (Assigned)
Overdraft	NA	NA	NA	1.00	SMERA BBB-/Stable (Assigned)

**Sublimit is Letter of Credit of Rs. 10.00 crore*

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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