

Press Release

Durga Construction Company (DCC)

09 October, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 42.00 Cr
Long Term Rating	SMERA BB+/Outlook:Stable
Short Term Rating	SMERA A4+

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.42.00 crore bank facilities of Durga Construction Company (DCC). The outlook is '**Stable**'.

DCC, a Gujarat-based partnership firm was established in 1996 by Mr. Dholu and family. The firm is engaged in contract mining of coal and overburden removal. The day-to-day operations are led by Mr. Shamjibhai Dholu, Mr. Shantilal Dholu and Mr. Naveen Dholu.

List of key rating drivers and their detailed description

Strengths

Experienced management and established relations with reputed customers: DCC is engaged in contract mining since the last two decades. The established track record of operations has helped the firm to successfully bid for tenders and cater to a reputed client base. DCC has dealings with clients like Singareni Collieries Company Limited, Western Coalfields Limited, Gujarat Mineral Development Corporation Limited among others.

Strong order book: The firm has strong order book of ~Rs. 1160 crore (~4.5 times of the firm's turnover of Rs.261.55 crore in FY2017) to be executed in the next 5-7 years from reputed clients. As the level of economic activity picks up, the demand for coal from core industries like power, steel, sponge iron, cement is expected to increase which will augur well for players like DCC.

Weaknesses

Below average capital structure and moderate coverage indicators: The networth of the firm stood moderate at Rs.62.04 crore as on 31 March, 2017 (Provisional) as against Rs.51.23 crore as on 31 March, 2016. The gearing stood high at 2.98 times as on 31 March, 2017 (Provisional) as against 3.50 times as on 31 March, 2016. The total debt of Rs.184.66 crore consists of equipment loans of Rs.129.59 crore, loan from GMDC of Rs.8.21 crore and deposit from customers of Rs.25.81 crore. SMERA believes that gearing is likely to remain high due to regular debt funded capex for purchase of equipment which the firm has to incur while setting up mining infrastructure for new projects.

The TOL/TNW ratio also stood high at 3.90 times as on 31 March, 2017 as against 4.44 times as on 31 March, 2016.

The firm has moderate coverage indicators with interest coverage of 3.50 times in FY2017 (Provisional) as against 3.19 times in FY2016. The DSCR stood at 1.03 times in FY2017 (Provisional) as against 1.06 times in FY2016.

The NCA/TD stood at 0.25 times in FY2017 (Provisional) as against 0.21 times in FY2016.

Stretched liquidity position: The firm has stretched liquidity position reflected in the cash credit utilisation of ~99 per cent from February to July, 2017.

Capital withdrawal risk: DCC, being a partnership firm, is exposed to the inherent risk of capital withdrawal, which will have an impact on the credit profile of the firm. While the networth is at an increasing level, the profits have not been fully retained in business.

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

Applicable Criteria

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

Key rating sensitivities

- Working capital management
- Movement in debt protection indicators
- Order book and revenue visibility
- Regulatory framework governing the mining industry

Outlook: Stable

SMERA believes that DCC will maintain a stable outlook owing to the extensive experience of the management in the mining industry. The outlook may be revised to 'Negative' in case of significantly larger than expected debt funded capex or elongation of its working capital cycle. The outlook may be revised to 'Positive' if DCC scales up operations while managing its working capital levels and profitability efficiently translating to an improvement in debt protection indicators.

About the Rated Entity

For FY2016-17 (Provisional), DCC reported net profit of Rs.16.00 crore on operating income of Rs.261.55 crore, compared to net profit of Rs.10.86 crore on operating income of Rs.182.03 crore in FY2015-16.

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	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	12.00	SMERA BB+ (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	30.00	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
Cash Credit	NA	NA	NA	12.00	SMERA BB+/Stable (Assigned)
Bank Guarantee	NA	NA	NA	30.00	SMERA A4+ (Assigned)

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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