

Press Release

Durga Construction Company

August 17, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.7.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.7.00 Cr. bank facilities of Durga Construction Co. (DCC). The outlook is '**Stable**'.

The rating takes into account the benefits accrued from the two-decade experience of the partners in the industry. The rating further draws comfort from order book giving revenue visibility in the near term. These strengths are however, partly offset by the average financial risk profile, deteriorating profitability indicators and small scale of operations to name a few.

About the Entity

Karnataka based, Durga Constructions Co. (DCC) was established as a partnership firm in the year 1996 and promoted by Mr. Shetty Subhaschandra, Mrs. Anupama S Shetty, Mr. Ramkishan Hegde and Ms. Ashwini S Shetty. The firm is a Class- I PWD contractor engaged in civil construction works like construction of roads, canals and bridges for state government of Karnataka in the surrounding areas of Udupi and Shivamogga.

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of DCC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The partners Mr. Shetty Subhaschandra, Mrs. Anupama S Shetty, Mr. Ramkishan Hegde and Ms. Ashwini S Shetty possesses over two decades of experience in civil construction industry. This has helped DCC get continuous orders from the Karnataka government.

Acuité believes experienced management and continuous orders will continue to support its business risk profile over near to medium term.

- **Short-term revenue visibility from current order book**

DCC has an order book of ~Rs.10.00 crore as on date to be executed in next 3-6 months providing revenue visibility for short-term period. The entire order book pertains to construction of roads and canals for Karnataka state government only resulting in high customer concentration and geographic concentration risk.

Weaknesses

- **Average financial risk profile**

DCC has average financial risk profile marked by modest tangible net worth and moderate gearing, and debt protection metrics.

The tangible net worth of the firm stood at Rs.3.49 Cr. as on March 31, 2021 (Provisional) as against Rs.3.40 Cr. as on March 31, 2020. The company follows an aggressive financial policy as reflected in its increase in the Gearing (Debt to Equity) and expected increase in gearing going forward. Gearing stood at 1.59 times

as on March 31, 2021 (Provisional) as against 1.32 times as on March 31, 2020. The debt profile comprises of long-term vehicle financing loans and fund based working capital facilities. The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 4.27 times as on March 31, 2021 (Provisional).

The debt protection metrics remain moderate and have improved on Y-O-Y basis. The ICR (Interest Coverage Ratio) stood at 1.58 times in FY2021 (Provisional) as against 1.47 times in FY2020 and the DSCR (Debt Service Coverage Ratio) stood at 0.94 times in FY2021 (Provisional) as against 0.86 times in FY2020. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.07 times in FY2021 (Provisional) as against 0.06 times in FY2020.

Acuité believes that the financial risk profile is expected to remain at average levels in the near to medium term.

- **Declining profitability indicators marked by susceptible to fluctuation in raw material prices**

The profitability indicators are susceptible to fluctuation in raw material prices due to absence of price variation clause in the contracts entered by the firm. This is reflected in the EBITDA margin of the firm has declined to 12.20 percent in FY2020 (Provisional) as against 13.42 percent in FY2020 due to nature of work undertaken by the firm coupled with increase in cost of raw material consumed and labour cost and other operating expenses. The PAT margin of the firm too has declined to 1.79 percent in FY2021 (Provisional) as against 2.06 percent in FY2020 due to decrease in interest & finance charges.

- **Tender based nature of operations marked by intense competition from established players**

The firm receives 100% work orders from Govt. of Karnataka. All these are tender-based and the revenues are dependent on the firm's ability to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. However, the promoter's satisfactory industry experience of two decades mitigates this risk to some extent. Nevertheless, there are numerous fragmented & unorganized established players operating in the segment that makes the civil construction space highly competitive.

- **Geographic and concentration risk**

The company undertakes orders from govt. entities in the Udupi region of Karnataka exposing the firm to significant geographic concentration risk associated with its operations. Any change in awarding the contracts will have a significant negative impact on the overall operations of the firm.

- **Proprietorship nature of the firm**

The firm is exposed to the risk associated with the partnership nature of the firm including capital withdrawal risk that could adversely affect the capital structure limiting financial flexibility. This is also visible since partners have withdrawn capital of personal purposes.

- **Small scale of operations with low net worth base and fluctuating total operating income**

The firm has a track record of around twenty years, however, the total operating income (TOI) of the firm remained low at Rs.8.19 crore in FY2021 (Provisional) as against Rs.5.96 crore in FY2020 with low net worth base of Rs.3.49 crore as on March 31, 2021 (Provisional) as against Rs.3.40 crore as on March 31, 2020.

Liquidity position: Stretched

DCC has stretched liquidity position marked by intensive working capital operations leading to higher reliance on its working capital limits. The firm's fund based facilities remained fully utilised for the 6-month period ended July 2021 and the non-fund based facilities remained utilised at ~75 percent. The company generated cash accruals of Rs.0.37 crore against its maturing debt obligations of Rs.0.26 crore in FY2021 (Provisional). The liquidity is expected to improve in near term with several bills expected to be cleared by the client. The partners are expected to infuse funds as and when required. DCC maintains cash and bank balances of less than Rs.0.90 crore as on March 31, 2021 (Provisional). The current ratio stands at 1.20 times as on March 31, 2021 (Provisional).

Acuité believes the liquidity is expected to improve in the near to medium, Howbeit the working capital management in the near to medium term will remain a key rating sensitivity factor.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that DCC will maintain a 'Stable' outlook in the near to medium term on account of its extensive experience of the partners in the business. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the firm registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

Particulars	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	8.19	5.96
PAT	Rs. Cr.	0.15	0.12
PAT Margin	(%)	1.79	2.06
Total Debt/Tangible Net Worth	Times	1.59	1.32
PBDIT/Interest	Times	1.58	1.47

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

CARE vide its press release dated May 19, 2021 has classified the rating of Durga Construction Co. to 'CARE D; Issuer not cooperating' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B-/Stable (Assigned)
Canara Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022 – 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022 – 49294011 rating.desk@acuite.in
Aditya Sahu Analyst – Rating Operations Tel: 022 – 49294055 aditya.sahu@acuite.in	

About Acuité Ratings & Research:

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