

Press Release

Dhairyा Construction (DC)

21 November, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 30.00 crore bank facilities of Dhairyा Construction (DC). The outlook is '**Stable**'.

Dhairyा Construction (DC), a Kutch-based civil construction firm established in 2013 by Mr. Birju Shah commenced operations in 2014. The firm undertakes government, PPP (Public Private Partnership) projects. It caters to Cube Construction Engineering Limited (CCEL) and Katira Construction Limited.

Key rating drivers

Strengths

Experienced management and healthy order book

The proprietor, Mr. Birju Shah, has experience of over two decades in the civil construction industry. Prior to starting DC, Mr. Shah was a Director at Cube Construction Engineering Limited (CCEL), engaged in civil construction. Mr. Shah is also the Director of Sancube Infra Projects Private Limited, Iolite Cube Inframaterials Limited, Aikya Chemicals Pvt. Ltd. The extensive experience of the proprietor has helped secure subcontracts resulting in a healthy order book. As on 30 September, 2017, the firm has order book of Rs.383.93 crore of which around Rs.135.00 crore is expected to be executed in FY2018 (six times of the revenues of FY2017) reflecting moderate revenue visibility in the near to medium term.

Moderate financial risk profile

DC has moderate financial risk profile marked by tangible net worth of Rs. 22.54 crore as on 31 March, 2017 as against Rs. 14.21 crore in the previous year. The increase in net worth is mainly on account of infusion of capital by the promoter. The gearing stood at 0.99 times as on 31 March, 2017 as against 0.64 times in the previous year. The debt of Rs. 22.54 crore mainly consists of term loan of Rs. 1.89 crore and working capital borrowings of Rs. 20.22 crore as on 31 March, 2017. The Total outside Liabilities/Tangible net worth (TOL/ TNW) stood at 1.19 times as on 31st March, 2017. The interest coverage ratio (ICR) stood at 2.15 times and debt service coverage ratio (DSCR) at 1.77 times in FY2017. The Net cash accruals/total debt (NCA/TD) stood at 0.05 times as on 31 March, 2017.

Weaknesses

Modest scale of operations and customer concentration risk

The firm has modest scale of operations with revenue of around Rs. 24.09 crore in FY2017 compared to Rs.19.75 crore in FY2016. The revenues are dependent on contracts received from Cube Construction Engineering Limited (22 per cent) and Katira Construction Limited (62 per cent) which in turn cater to the Gujarat Government. As a result, the firm is exposed to customer concentration risk.

SMERA believes that significant events such as slowdown in receipt of orders, deferment of projects by the counterparty or delays in realisation of receivables from major customers may have a bearing on the operating cash flows and credit profile of the firm.

Working capital intensive operations

DC's operations are working capital intensive marked by high GCA of 285 days in FY2017 compared to 85 days in FY2016. The GCA days are mainly dominated by high debtors of 190 days in FY2017. The significant increase in debtors is mainly on account of delay in receivables from customers that cater to government entities. The average bank limit utilisation stood high at ~90 per cent for the last six months (April 2017 to September 2017).

SMERA believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Dhairyra Construction to arrive at the rating.

Outlook – Stable

SMERA believes that DC will maintain a stable outlook on account of its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' if the firm registers lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity – Key Financials

The firm reported profit after tax (PAT) of Rs. 0.92 crore on net sales of Rs. 24.09 crore in FY2017 as against PAT of Rs. 1.00 crore on net sales of Rs. 19.75 crore in FY2016. The net worth stands at Rs. 22.54 crore as on 31 March, 2017 compared to Rs. 14.21 crore as on 31 March, 2016.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Infrastructure Sector: <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto 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/Outlook
Bank Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB-/ Stable
Bank Overdraft	Not Applicable	Not Applicable	Not Applicable	1.30	SMERA BB-/ Stable
Bank Overdraft	Not Applicable	Not Applicable	Not Applicable	0.60	SMERA BB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.75	SMERA BB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.32	SMERA BB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB-/ Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB-/ Stable
Proposed Bank facilities	Not Applicable	Not Applicable	Not Applicable	5.03	SMERA BB-/ Stable

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ABOUT SMERA

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