

Press Release

28 December, 2017

DINESH KUMAR SHARMA (DKS)

Rating Assigned



Total Bank Facilities Rated *	Rs.11.00 cr
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.11.00 crore bank facilities of Dinesh Kumar Sharma (DKS). The outlook is '**Stable**'.

Dinesh Kumar Sharma (DKS) is an Ujjain, Madhya Pradesh based proprietary concern established in 1998 by Mr. Dinesh Sharma. The firm is engaged in the construction and repair of roads, bridges and buildings. DKS is a class 'A' contractor and can bid for unlimited number of contracts.

Key Rating Drivers

Strengths

Established track record of operations, experienced management

DKS is an Ujjain-based firm concern established in 1998. Promoted by Mr. Dinesh Kumar Sharma, DKS has more than two decades of experience in civil construction. This has helped build healthy relations with suppliers.

Above average financial risk profile

The financial risk profile is above average marked by networth of Rs.5.04 crore as on 31 March, 2017 as against Rs.4.96 crore as on 31 March, 2016. The gearing (debt-to-equity) stood at 0.65 times as on 31 March, 2017 against 0.59 times as on 31 March, 2016. The total debt mainly comprises working capital borrowings. The Interest Coverage Ratio (ICR) stood at 2.24 times for FY2017 against 2.29 times for FY2016. The NCA/TD stood at 0.17 times for FY2017 against 0.13 times for FY2016.

Efficient working capital management

DKS has managed its working capital cycle efficiently marked by GCA (Gross Current Assets) of 60 days in FY2017 against 6 days in FY2016. This is on account of inventory days of 28 and debtor days of 32 for FY2017. However, utilisation of working capital borrowings stood at 90.00 percent for past six months ending November 2017.

Weaknesses

Modest scale of operations and thin profitability

The operating income stood at Rs.22.28 crore for FY2017 against Rs.17.83 crore for FY2016 and Rs.17.41 crore for FY2015. Further, from April 2017 to October 2017, DKS achieved revenue of ~Rs.6.00 crore. The firm has order book position of Rs.28.00 crore to be executed within 8-10 months. Furthermore DKS has thin operating profitability marked by 3.38 percent for FY2017 against 3.73 percent for FY2016.

Tender based operations

DKS is a class 'A' contractor and generates revenue through tenders from state governments of Madhya Pradesh. Any delay in project execution along with delayed receipts from the government and site related issues are likely to result in higher working capital requirements. However, this risk is mitigated to a certain extent as DKS has long term relations with state government departments.

Highly competitive and fragmented industry

DKS is exposed to intense competition in the industry from several mid to large sized players. However, the risk is mitigated to an extent as the management has been operating for more than two decades. DKS has been able to maintain its top line and win tenders with an average success ratio of ~60.00 per cent.

Analytical Approach

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

Outlook: Stable

SMERA believes that DKS will maintain a Stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of more than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of high working capital requirements increasing pressure on margins.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	22.28	17.83	17.41
EBITDA	Rs. Cr.	0.75	0.67	1.14
PAT	Rs. Cr.	0.31	0.13	0.58
EBITDA Margin (%)	(%)	3.38	3.73	6.56
PAT Margin (%)	(%)	1.39	0.71	3.35
ROCE (%)	(%)	9.34	5.85	12.43
Total Debt/Tangible Net Worth	Times	0.65	0.59	0.30
PBDIT/Interest	Times	2.24	2.29	6.13
Total Debt/PBDIT	Times	3.24	4.40	1.28
Gross Current Assets (Days)	Days	60	6	14

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A4

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ABOUT SMERA

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