Press Release

Ramji Das Dhal Construction Private Limited

June 04, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.50.00 crore bank facilities of Ramji Das Dhal Construction Private Limited (RDCPL). The outlook is **'Stable'**.

Incorporated in 1998 as a partnership firm, Ramji Das Dhal Construction Pvt Ltd (RDCPL) reconstituted itself as a private limited company in 2010. The company is promoted and managed by Mr. Tilak Raj Dhal and his son, Mr. Sumit Dhal.

RDCPL is an approved super-special-class contractor for Military Engineering Services (MES) in Madhya Pradesh and Uttar Pradesh region. It secures contract work through open tendering process of MES. The company specialises in civil and structural contracts including accommodation, military hospitals, military colleges and technical buildings, among others.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the civil construction industry**
  RDCPL's active promoters have experience of more than three decades in the civil construction industry. RDCPL has been one of the few approved super-special-class contractors for Military Engineering Services (MES) since 1980s for executing projects in Madhya Pradesh (MP) and Uttar Pradesh (UP). This provides RDCPL an edge over other contractors in terms of its experience in executing civil and structural contracts for MES, bidding, supplier linkages for raw materials, etc.

  RDCPL's revenues improved at a compound annual growth rate of about 15 percent over four years through FY2018. The revenues have dropped in FY2015 and FY2016 due to execution of large work order of about Rs.110.00 crore in a joint venture formed with another group in the name of Pushpanjali Constructions Pvt Ltd. It was executed in Joint Venture to meet the technical and financial eligibility. However, going forward the company will be executing new business under RDCPL only, as they got eligibility to bid for high value orders in RDCPL name. RDCPL has unexecuted order book position of Rs.81.18 crore in hand as on March 31, 2018 which is to be executed over the next 12-18 months which provides revenue visibility over the medium term.

- **Moderate financial risk profile**
  The gearing remained healthy and has been improving from 0.75 times as on March, 2015 to 0.32 times as on March, 2017 due to increasing accretion to reserves. Gearing is expected to be below 0.50 times as of March, 2018. In absence of any major debt funded capex and repayments of existing loans, the gearing is expected to remain healthy under 0.5 times over

the medium term too. Total outside liabilities to total net worth (TOL/TNW) is healthy at 0.71 times in FY2017 and is expected to be at 0.61 times in FY2018. RDCPL’s improving net cash accruals and moderate debt levels has led to healthy debt protection metrics marked by Net cash accruals to total debt (NCA/TD) and interest coverage ratio of 0.73 times and 4.55 times in FY2017. NCA/TD and interest coverage is expected to be at 0.58 times and 5.51 times in FY2018. Net worth has doubled over the last 3 years ending March, 2017 to Rs.13.82 crore from Rs.6.37 crore as of March, 2015. It is expected to be at Rs.16.83 crore as on March, 2018 and is expected to improve over the medium term backed by improving topline and moderate profitability margins.

Weaknesses

- **Geographic and customer concentration in revenue**
  RDCPL has been in the civil contract business for more than three decades; however, almost 100 percent of its revenue is from projects executed in MP and UP. This makes RDCPL's revenue growth dependent on regional impetus on infrastructure development. Moreover, operations are restricted to the defence segment, with entire revenue being derived from single key principal - Military Engineer Services (MES). Presence of over 50 contractors in the super-special category exposes RDCPL to intense competition and pricing pressure. Any dispute or irregularities in a particular project can hamper potential relationships, thereby significantly affecting the RDCPL's top line over the medium term. The company also remains vulnerable to cyclicality in the construction industry, but the risk is mitigated by its longstanding relationship with MES.

- **Tender nature of operations**
  Since operations are tender driven, topline depends on successful bidding. This is compounded by intense competition from over 100 contractors in the super special class of defence contractors. Also, any slowdown in orders from MES or cyclicality in the construction industry is likely to adversely affect the RDCPL's business and financial risk profile. Since revenue is almost entirely tender-based, income depends on the ability to bid successfully. The company has low to moderate success rate in winning tenders in the past.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RDCPL to arrive at this rating.

Outlook: Stable

Acuite believes that RDCPL will continue to benefit from the extensive promoters' experience and its long standing relationship with customers and suppliers. The outlook may be revised to 'Positive' in case of significant improvement in revenues while diversifying its client base and maintaining the profitability and capital structure. The outlook may be revised to 'Negative' in case of any sharp decline in revenues due to change of business model, thereby impacting the business risk profile over the medium term.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.71	17.38	30.63
EBITDA	Rs. Cr.	2.73	2.61	3.33
PAT	Rs. Cr.	2.56	3.31	2.36
EBITDA Margin	(%)	11.06	15.04	10.88
PAT Margin	(%)	10.35	19.05	7.69
ROCE	(%)	25.69	37.26	69.93
Total Debt/Tangible Net Worth	Times	0.32	0.67	0.75
PBDIT/Interest	Times	4.55	4.49	6.34
Total Debt/PBDIT	Times	0.87	1.15	1.09
Gross Current Assets (Days)	Days	117	194	73

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: https://www.acuite.in/criteria-manufacturing.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/criteria-fin-ratios.htm
- Default Recognition: https://www.acuite.in/criteria-default.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.