

Press Release
Devendra Construction Company

August 29, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.37.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.37.00 crore bank facilities of Devendra Construction Company (DCC). The outlook is 'Stable'.

Jodhpur-based, M/s Devendra Construction Co (Partnership Firm) (DCC) was established in the year 2002 as a proprietorship firm by Mr. Devendra Vishnoi. Later, the constitution was changed to partnership firm in the year 2018. Mr. Devendra Vishnoi, Mr. Yashpal Vishnoi and Mrs. Kamla Vishnoi are the current partners of the firm.

DCC is engaged in the business of civil construction, which primarily includes water pipe line work, pumping machineries jobs and civil works projects throughout the state of Rajasthan. It is enlisted as "AA" class contractor with Public Health & Engineering Department (PHED), Government of Rajasthan & "A" class contractor with Military Engineer Services (MES).

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

The partner of the firm, Mr. Devendra Vishnoi, has experience in the same industry for almost 2 decades. The extensive experience of the partners has helped them to develop healthy relationship with its customers and suppliers. The key clients of the firm are Public Health and Engineering Department, Rajasthan (PHED Rajasthan) and Military Engineer Services (MES). DCC has an unexecuted order book position of about Rs.236.00 crore (2.43 times of FY2019 Provisional revenues) as on 31 March, 2019, which gives adequate revenue visibility.

• Healthy financial risk profile

The financial risk profile is moderate marked by moderate net worth and comfortable debt protection measures and strong gearing. The net worth stood at Rs.57.91 crore as on 31 March, 2019 (Provisional) as against Rs.56.53 crore as on 31 March, 2018. The gearing of the firm stood at 0.08 times as on 31 March, 2019 (Provisional) as against 0.06 times as on 31 March, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.46 times as on 31 March, 2019 (Provisional) as against 0.44 times as on 31 March, 2018. The Interest Coverage Ratio (ICR) stood at 4.84 times as on 31 March, 2019 (Provisional) as against 4.53 times as on 31 March, 2018.

Acuité believes that the financial risk profile of DCC will continue to remain healthy over the medium term on account of its improving scale of operations in absence of major debt funded capex plan over medium term.

• Efficient working capital management

DCC's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 100 days estimated as on 31 March, 2019 (Provisional). DCC extends a credit period of around 30-45 days to its customers and realizes payments within 30 days. On the other hand, the firm gets 90 days credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average of 54 per cent over the last six months ending 31 March, 2019. Acuité expects the working capital management of the firm to remain efficient over the medium term on account of the timely payment from the customers and to the suppliers.

Weaknesses

• Decline in operating income and profit margin

The firm's operating income has declined to Rs.96.79 crore in FY2019 (Provisional) as against Rs.137.08 crore in FY2018 mainly on account of slow execution of projects during election period. The decrease in Profit margin to 1.96 per cent in FY2019 (Provisional) from 2.11 per cent in FY2018 is mainly due to higher raw material cost.

• Tender based operations

The firm operates in highly competitive industry due to presence of many organised and unorganised players. The business of the firm depends upon the number of tenders floated by the government and bid success rate of the firm.

• Competitive and fragmented industry

The firm is engaged in infrastructure construction, wherein the sector is marked by the presence of several mid to big size players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the infrastructure segment. However, this risk is mitigated to an extent on account of experienced management.

Liquidity position

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. DCC generated cash accruals of Rs.2.53 crore in FY2019 (Provisional) as against no debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.3.40 crore to Rs.4.91 crore during FY2020-22 against repayment obligations for Rs.0.60 crore each year for the same period. The firm's working capital operations are moderate marked by gross current asset (GCA) days of 100 days in FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.2.83 crore as on 31 March, 2019 (Provisional). The current ratio stands at 1.50 times as on 31 March, 2019 (Provisional).

Outlook: Stable

Acuité believes that DCC will maintain a 'Stable' outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements

About the Rated Entity - Key Financials

	Unit	FY19(Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	96.79	137.08	102.53
EBITDA	Rs. Cr.	3.19	4.38	2.74
PAT	Rs. Cr.	1.90	2.89	1.85
EBITDA Margin	(%)	3.29	3.20	2.67
PAT Margin	(%)	1.96	2.11	1.80
ROCE	(%)	4.19	6.83	4.27
Total Debt/Tangible Net Worth	Times	0.08	0.06	0.04
PBDIT/Interest	Times	4.84	4.53	6.59
Total Debt/PBDIT	Times	1.40	0.72	0.83
Gross Current Assets (Days)	Days	100	71	59

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-Sept-2018	Overdraft	Long term	2.00	ACUITE BB+/Stable (Assigned)
	Bank guarantee/ Letter of guarantee	Short term	17.00	ACUITE A4+ (Assigned)
	Bank guarantee/ Letter of guarantee	Short term	18.00	ACUITE 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
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Reaffirmed)
Bank guarantee/ Letter of guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A4+ (Reaffirmed)
Bank guarantee/ Letter of guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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