

Press Release

Devendra Construction Company

November 04, 2020



Rating reaffirmed

Total Bank Facilities Rated*	Rs.37.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* 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. 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 a 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 pipeline work, pumping machineries jobs and civil works projects throughout the state of Rajasthan and Punjab. 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 a healthy relationship with its customers and suppliers. The key clients of the firm are the Public Health and Engineering Department, Rajasthan (PHED Rajasthan) and department of water supply and sanitation, Punjab (WSS Punjab). DCC has an unexecuted order book position of about Rs.310.00 crore as on 31 March, 2020, which gives adequate revenue visibility.

• Comfortable Financial risk profile and significant improvement in operating margins

Financial risk profile of the firm remained comfortable marked by high net worth and strong debt protection metrics. The net worth of the firm stood at Rs.63.02 Crore as on 31 March 2020 (Provisional) as against Rs.60.50 Crore as on 31 March 2019. The gearing level (debt-equity) stood low at 0.13 times as on 31 March 2020 (Provisional) as against 0.07 times as on 31 March 2019. The total debt of Rs.8.02 Crore as on 31 March 2020 (Provisional) consists of long term debt of Rs.5.19 Crore, unsecured loan amounted to Rs.1.08 Crore and working capital borrowings of Rs.1.76 Crore. The interest coverage ratio (ICR) stood at 6.18 times in FY2020 (Provisional) as against 6.23 times in FY2019 due to high EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio improved to 0.71 times in FY2020 (Provisional) as against 0.74 times in FY2019. Debt to EBITDA stood at 1.18 times in FY2020 (Provisional) as against 1.14 times in FY2019. This is mainly due to low external debt and high EBITDA during the year.

The EBITDA Margins have significantly improved to 6.94 percent for FY2020 (Provisional) as against 3.93 percent in FY2019. The PAT margins have also improved to 5.01 percent in FY2020 (Provisional) as against 2.48 percent in FY2019. This is mainly due to higher profitability margins earned in some of the order executed. Going forward, Acuité expects the company to maintain its financial risk profile and improve its net

worth backed by steady accruals and absence of any major debt-funded capex plan.

Weaknesses

- **Working Capital Intensive Operation**

The working capital cycle of DCC stood intensive marked by Gross Current Assets (GCA) days of 166 for FY2020 (Provisional) as against 100 for FY2019. GCA days have increased due to the rise in debtors collection period from 48 days in FY2019 to 19 days in FY2020 (Provisional). This is mainly caused by delay in payment clearance due to Covid-19 pandemic followed by the nationwide lockdown. The inventory days stood low at 1 in FY2020 (Provisional) as against 23 days in FY2019. Although the average utilization of bank limits stood at ~88 per cent in the last six months ending July, 2020.

Acuité believes that the working capital operations are expected to remain at the same level with respect to the nature of the business cycle and will remain a key rating sensitivity factor.

- **Tender based operations**

The firm operates in a highly competitive industry due to the presence of many organized and unorganized 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 the 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.

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.

Material Covenant

None

Rating sensitivity

- Decline in revenue and profitability in FY2021 due to Covid-19 pandemic followed by nationwide lockdown.

Liquidity position: Adequate

The firm has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.5.70 Crore in FY2020 (Provisional) as against CPLTD of Rs.0.80 Crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.5.78 Crore to Rs.7.41 Crore during FY2021-23 against as against CPLTD of Rs.0.84 Crore each year for the same period. The firm's working capital operations are moderate marked by Gross Current Asset (GCA) days of 166 days in FY2020 (Provisional). Firm maintains unencumbered cash and bank balances of Rs.9.99 Crore as on 31 March 2020 (Provisional). The current ratio stands at 1.42 times as on 31 March 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	97.86	98.04
PAT	Rs. Cr.	4.91	2.43
PAT Margin	(%)	5.01	2.48
Total Debt/Tangible Net Worth	Times	0.13	0.07
PBDIT/Interest	Times	6.18	6.23

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

Not Applicable

Any other information

Not Applicable

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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-August-2019	Overdraft	Long Term	2.00	ACUITE BB+/Stable (Reaffirmed)
	Bank Guarantee/Letter of Credit	Short Term	17.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee/Letter of Credit	Short Term	18.00	ACUITE A4+ (Reaffirmed)
21-September-2018	Overdraft	Long Term	2.00	ACUITE BB+/Stable (Assigned)
	Bank Guarantee/Letter of Credit	Short Term	17.00	ACUITE A4+ (Assigned)
	Bank Guarantee/Letter of Credit	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. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BB+/Stable (Reaffirmed)
Bank Guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A4+ (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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