



Press Release

Dharamraj Contracts India Private Limited

April 08, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 115.00 crore
Long Term Rating	ACUITE BB-/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) to the Rs. 20.00 crore bank facilities of DHARAMRAJ CONTRACTS INDIA PRIVATE LIMITED (DCIPL). The outlook is '**Stable**'.

Acuité has also assigned the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 95.00 crore bank facilities of DHARAMRAJ CONTRACTS INDIA PRIVATE LIMITED (DCIPL).

Incorporated in 2010 by Mr. Chaman Singh and his father Mr. Raj Singh, DCIPL is involved in the construction of roads and subways for both government and private entities. It is a class "AA" contractor with Ghaziabad Development Authority, Noida Development Authority and various Public Works Departments (PWD's). The promoters of the company have been in this line of business since past two decades.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Dharamraj Contracts India Private Limited (DCIPL) to arrive at this rating.

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

Incorporated in the year 2010, Dharamraj Contracts India Private Limited is promoted by Mr. Chaman Singh along with his father Mr. Singh Raj Singh. Currently, the directors of the company are Mr. Chaman Singh, Ms. Varsha Chaudhary, Mr. Hari Om Gera and Ms. Joann Madhoo Singh, who hold experience of more than two decades in the aforementioned line of business. The extensive experience of the promoters is reflected through the established relationships with the company's customers and suppliers. The key customers of the company have no major concentration in revenues. On the back of the stable and repetitive orders by the various customers, the revenues of the company have seen a compound annual growth rate (CAGR) of about 9.22 per cent over the past three years through FY2019 at Rs. 125.37 crore in FY2019. Further, the company has an unexecuted order book of about Rs. 348.21 crore which is 2.78 times of the revenue in FY2019, which shows adequate revenue visibility. Further, the order book comprises of orders from reputed clientele such as Uttar Pradesh Rajkiya Nirman Nigam Limited, Public Works Department (PWD), Delhi Metro Rail Corporation (DMRC) and Border Roads Organization, Rishikesh.

Further, the company has booked revenue of Rs. 108.56 crore for the nine months ended as on 31st

December, 2019. DCIPL is expected to continue to leverage its well established relationships with reputed clients and suppliers. Acuité believes that DCIPL will continue to benefit from its established track record of operations and experienced management and their long standing relationships with reputed customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by above average gearing, moderate debt protection metrics and coverage indicators.

The net worth of DCIPL is average, estimated at around Rs. 29.68 crore as on 31st March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy profitability.

The company has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.93 times and 3.21 times as on March 31, 2018, respectively. The leverage levels however have improved to 0.99 times as on March 31, 2019. The company incurred capex of Rs. 22.63 crore over the last three years. The total debt of Rs. 29.53 crore as on 31 March 2019 comprised of long-term borrowings of Rs. 10.81 crores, unsecured loans from related parties of Rs. 3.55 crore and working capital borrowings of Rs. 15.17 crores.

The revenues of the company remained stable at Rs. 125.37 crore during 2018-19, while its operating margins remained healthy, though deteriorated from 16.19 per cent in FY2018 to 14.02 per cent in FY2019. The healthy profitability levels coupled with moderate debt levels have led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.36 per cent and 3.09 times, respectively.

Acuité believes that the financial risk profile of the company is expected to remain moderate on back of absence of any major debt funded capex plan and healthy accretion to reserves.

Weaknesses

- **Working capital intensive nature of operations**

DCIPL's operating cycle reduced, yet remained elongated at 140 days during FY19 as against 230 days in FY18. The company maintains inventory of around 40 days in FY19 as against 51 days in the previous year. On the other hand, the company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of around 60 days to its customers. DCIPL's working capital limits over the last six months period were utilized at an average of ~95 per cent ended February 2020.

Acuité expects the operations of the company to remain working capital intensive on account of the high credit period extended to its customers.

- **Highly competitive and cyclical nature of industry**

DCIPL is into the business of construction of roads and bridges on EPC basis. This particular sector is marked by the presence of several mid to big size players. DCIPL faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of experienced management.

Rating Sensitivity

- Significant improvement in its working capital management.
- Further decline in profitability levels thereby impacting company's debt coverage indicators.
- Decline in average utilization levels of working capital limits.

Material Covenants

None

Liquidity: Stretched

The company has stretched liquidity profile marked by limited cushion in net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 10.58 crore for FY2019 as against debt obligations of Rs. 6.16 crore for the same period. The cash accruals of the company are estimated to remain around Rs. 13.42 crore to Rs. 18.03 crore during FY2020-22 against repayment obligations ranging from Rs. 1.75 crore to 4.10 crore, during the same period. DCIPL's working capital operations are intensive marked by gross current asset (GCA) of 140 days. High GCA days have led to higher reliance on external borrowings indicated by average utilization of ~95 per cent of the working capital limits over the last six months ended February 2020. The company maintains unencumbered cash and bank balances of Rs. 0.16 crore as on 31 March, 2019. The current ratio stood at 1.12 times as on 31 March, 2019. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of average cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuité believes that DCIPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	125.37	90.05
PAT	Rs. Cr.	6.20	3.33
PAT Margin	(%)	4.95	3.69
Total Debt/Tangible Net Worth	Times	0.99	1.93
PBDIT/Interest	Times	3.09	2.36

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	56.00	ACUITE A4 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A4 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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