Press Release

Dharamraj Contracts India Private Limited

March 03, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs. 115.00 crore*
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded from ACUITE BB-/ Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB-' (read as ACUITE double B minus)** and the short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4' (read as ACUITE A four)** on the Rs. 115.00 crore bank facilities of Dharamraj Contracts India Private Limited (DCIPL). The outlook is **'Stable'**.

Rationale for rating upgrade

The rating upgrade reflects recovery of long-pending dues from one of its customers, Public Works Department (Ghazipur), hence resulting in improvement in liquidity profile of the company, improved business risk profile with reduced customers' concentration risk, healthy order book position, sustained scale of operations, healthy profitability margins and healthy financial risk profile. On the contrary, working capital operations of the company continues to be intensive in nature.

Previously, the rating was constrained on account of liquidity stretch that the company was facing due to blocked funds with PWD Ghazipur as there was an upward revision in the project cost by Rs. 42.89 crore. While the project was completed in May 2019, this amount was pending for verification and approval. This led to significant increase in debtors as on March 31, 2020, deteriorating the working capital operations with GCA of 212 days and hence resulting in increased dependence on working capital borrowings. However, out of Rs. 42.89 crore, an amount of Rs. 29.97 crore has been realised in the months of December 2020 and January 2021, which brought the working capital utilization significantly in the month of January 2021. DCIPL is expected to receive balance Rs. 12.92 crore of dues by the end of current financial year. Further, bank guarantee amounting to Rs. 17.40 crore has been reduced by various tenders as per Government guidelines in view of covid-19. This resulted in release of margin money of ~Rs. 3.50 crore, which will add to the financial flexibility of the company. Furthermore, the promoters have infused funds in the form of unsecured loans which will remain in business over the long-term. Moderation in debt-protection metrics of DCIPL has been observed though the overall financial risk profile remains above-average owing to moderate net worth, low leverage levels and moderate debt-coverage indicators.

DCIPL's scale of operations continue to be at comfortable levels with total operating income of Rs. 124.19 crore in FY2020 and the company has reported an operating income of Rs. 116.21 crore during 10MFY2021 as against Rs. 74.80 crore during the corresponding period in the previous year. Moreover, DCIPL has a healthy unexecuted order book of Rs. 543.4 crore through various government organizations, which is 4.38 times the operating income for FY2020, thereby ensuring revenue visibility. The profitability margins of the company continue to remain healthy.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DCIPL to arrive at this rating.

About the Company
Incorporated in 2010 by Mr. Raj Singh and Mr. Chaman Singh, DCIPL is a Delhi-based company 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 (PWDs). The promoters of the company have been in this line of business for the past two decades (earlier, promoters were engaged in the same line of business as a sub-contractor through a proprietorship concern till 2010).

Key Rating Drivers

Strengths

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

DCIPL was incorporated in the year 2010 by Mr. Chaman Singh along with his father Mr. Singh Raj Singh. The directors of the company 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.

Acuité believes that DCIPL will continue to benefit from its established track record of operations and experienced management.

- **Improvement in business risk profile and healthy order book position**

The operating income of the company have seen a compound annual growth rate (CAGR) of about 17.44 per cent over the past three years through FY2020 at Rs. 124.19 crore in FY2020, on the back of the stable and repetitive orders by the various customers. The company has already booked a revenue of Rs. 116.21 crore in 10MFY2021 which is 1.55 times the revenue booked during the corresponding period in the previous year, despite restricted construction activities in Q1FY2021 due to covid-19.

Further, the company has an unexecuted order book of about Rs. 543.49 crore which is 4.38 times of the revenue in FY2020, which ensures healthy revenue visibility over the medium term. The order book is well-diversified with no major customer concentration and comprises of orders from reputed clientele such as Uttar Pradesh Rajkiya Nirman Nigam Limited, PWD Delhi, Project Sampark in Jammu & Kashmir and Border Roads Organization, Rishikesh. DCIPL is expected to continue to leverage its well established relationships with reputed clients and suppliers.

- **Above-average financial risk profile**

The financial risk profile of the company is above-average marked by moderate net worth, low gearing levels and moderate debt protection metrics.

The net worth of the company is moderate at Rs. 43.61 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of continuous infusion of funds by promoters.

The company has followed a conservative financial policy in the past and is continuing with the same policy as reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.77 times and 1.78 times as on March 31, 2020. The leverage levels have deteriorated though remained healthy on account of higher borrowings for equipment and vehicles in FY2020. The total debt of Rs. 33.79 crore as on 31 March 2020 comprised of working capital borrowings of Rs. 20.58 crores and long-term borrowings of Rs. 13.21 crores of which Rs. 10.09 crore are to be repaid within a year. The finance cost for the company remains on a higher side on account of significant non-fund based limits and mobilization advances.

Owing to healthy profitability margins, the company has moderate debt coverage indicators, marked by debt-service-coverage-ratio of 1.37 times as on 31st March, 2020 as against 1.43 times as on 31st March, 2019 and interest coverage ratio of 2.67 times as on 31st March, 2020 as against

3.09 times as on 31st March, 2019. The moderation in debt coverage indicators is on account of greater cost of borrowings.

Acuité believes that the financial risk profile of the company will continue to remain above-average on account of healthy profitability resulting in healthy accretion to reserves and debt-protection metrics.

Weaknesses

- **Working capital intensive nature of operations**
The company has intensive working capital requirements as evident from gross current assets (GCA) of 212 days in FY2020 as compared to 137 days in FY2019. This deterioration is on account of increase in high year-end inventory debtor balances owing to covid-19 induced lockdown and high receivables due to significant outstanding amount from PWD Ghazipur. Debtors' days stood at 121 days for FY2020 as against 60 days in the previous year, while inventory days stood at 54 days as against 40 days for FY2019. Creditors' payment period also increased to 82 days as on 31st March 2020.

This intensive requirement for working capital has led to higher reliance on working capital borrowings. The working capital limits were fully utilized till November 2020, however, the utilization came down in December 2020 and further in January 2021 after realization of dues from PWD Ghazipur. The utilization is expected to remain moderate in future with further realization of balance amount. Further, current ratio of the company stood at 1.81 times for FY2020. Acuité expects the working capital operations of the group to improve yet remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

- **Highly competitive and cyclical nature of industry**
DCIPL is into the business of construction of roads and bridges on EPC basis. The company faces intense competition from the presence of several mid to big size players in the industry. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclicality in the road sector. Acuité believes that DCIPL is comfortably positioned in the industry on account of established relationship with reputed clientele and experienced management.

Rating Sensitivity

Positive

- Timely recovery of balance dues from PWD
- Substantial improvement in working capital management

Negative

- Significant decline in the profitability thereby impact debt coverage indicators

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations and recently improved cash position of the company. The company has generated cash accruals of Rs. 11.43 crore for FY2020, while its maturing debt obligations were Rs. 10.09 crore during the same period. The company's working capital operations are intensive marked by Gross Current Asset (GCA) of 212 days for FY2020. The fund-based working capital limits of DCIPL were fully utilized till November 2020, however, the utilization came down in December 2020 and further in January 2021 after realization of dues from PWD Ghazipur and is expected to come down further. At the same time, non-fund based limits are utilized at an average of 90-95 per cent. In addition to this, DCIPL has availed COVID-19 moratorium and working capital demand loan under COVID -19 package. The company has Rs. 1.22 crore of unencumbered cash and bank balances as on March 31, 2020. Acuité believes that the liquidity of the company is likely to improve further over the medium term on account of timely recovery of balance dues from PWD Ghazipur and healthy 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, above-average financial risk profile and healthy revenue visibility bolstered by healthy order book position. 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 due to significant debt-funded capex or any significant withdrawal of capital, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity- Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	124.19	125.37
PAT	Rs. Cr.	6.91	6.20
PAT Margin	(%)	5.56	4.95
Total Debt/Tangible Net Worth	Times	0.77	0.75
PBDIT/Interest	Times	2.67	3.09

Status of non-cooperation with other CRA

None

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-May-2020	Cash Credit	Long-Term	14.00	ACUITE BB-/ Stable (Reaffirmed)
	Cash Credit	Long-Term	5.00	ACUITE BB-/ Stable (Reaffirmed)
	Cash Credit	Long-Term	1.00	ACUITE BB-/ Stable (Reaffirmed)
	Bank Guarantee	Short-Term	56.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short-Term	24.00	ACUITE A4 (Reaffirmed)

	Bank Guarantee	Short-Term	15.00	ACUITE A4 (Reaffirmed)
08-Apr-2020	Cash Credit	Long-Term	14.00	ACUITE BB-/ Stable (Assigned)
	Cash Credit	Long-Term	5.00	ACUITE BB-/ Stable (Assigned)
	Cash Credit	Long-Term	1.00	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short-Term	56.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short-Term	24.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short-Term	15.00	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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/ Stable (Upgraded)
Cash Credit#	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A3 (Upgraded)
Bank Guarantee@	Not Applicable	Not Applicable	Not Applicable	71.00	ACUITE A3 (Upgraded)

#Cash Credit of Rs. 14.00 crore was earlier classified separately as it was sanctioned by erstwhile Oriental Bank of Commerce.
@Bank Guarantee of Rs. 56.00 crore was earlier classified separately as it was sanctioned by erstwhile Oriental Bank of Commerce.

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About Acuité Ratings & Research:

Acuité Ratings & Research 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.