Press Release

Dharamraj Contracts India Private Limited

June 14, 2022

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB- | Stable | Reaffirmed	-
Bank Loan Ratings	25.00	-	ACUITE A3 | Assigned
Bank Loan Ratings	5.00	ACUITE BBB- | Stable | Assigned	-
Bank Loan Ratings	95.00	-	ACUITE A3 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	145.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE t riple B minus)** and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 30.00 crore bank facilities of Dharamraj Contracts India Private Limited (DCIPL). The outlook is '**Stable**'.

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE t riple B minus)** and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 115.00 crore bank facilities of Dharamraj Contracts India Private Limited (DCIPL). The outlook is '**Stable**'.

Rationale for Reaffirmation

The reaffirmed rating takes into consideration the established track record of operations, improvement in revenue and profitability profile and the above average financial risk profile. The firm has registered growth in revenues in the last three years resulting in a three year CAGR of 5.98%. Profitability metrics have also improved with EBITDA margin improving from 15.75% in FY 2021 (Audited) to 18.39% in FY 2022 (Provisional) and PAT margin improving from 5.34% in FY 2021 (Audited) to 5.77% in FY 2022 (Provisional). Company's gearing has improved to 1.25 times in FY 2022 (Provisional) along with growth in NCA/TD (Net Cash Accruals/Total Debt) to 0.23 times in FY 2022 (Provisional) maintaining the overall financial risk profile. The rating is however constrained by order execution risk and the increased reliance on working capital borrowings. Due to the working capital intensive nature of operations, in the recent years the company has increased its reliance on working capital borrowings which could be a risk factor in the event of downward cyclicality of the industry .Out of Rs. 533.14 Cr of unexecuted order book, 69.37% of the orders are to be executed in FY 2023 as per the stipulated timeline and the slippages and pace of execution of projects presents inherent execution risk. The timely completion of projects will be a key monitorable going forward.

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).

Analytical Approach

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

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.

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 stood at Rs. 52.41 Cr as of March 2022 (Provisional) as against Rs. 43.88 Cr in FY 2021 (Audited). Despite on boarding additional long term loan for equipment's and high reliance on working capital borrowings, the Debt to Equity position remained comfortable and improved from 1.60 times in FY 2021 (Audited) to 1.25 times in FY 2022 (Provisional). TOL/TNW position also improved from 2.34 times in FY 2021 (Audited) to 1.89 times in FY 2022 (Provisional). Debt protection metrics remained moderate with Interest Coverage Ratio (ICR) standing at 2.63 times and Debt Service Coverage Ratio (DSCR) standing at 1.33 times in FY 2022 (Provisional). The total debt of Rs. 65.28 Cr in FY 2022 (Provisional) consists of Rs. 17.05 Cr of Long term debt which is loans on boarded for financing equipment's, Rs. 6.61 Cr of Unsecured loan, Rs. 30.70 Cr of working capital borrowings and Rs. 10.91 Cr of CPLTD. In the absence of any debt funded capex the financial risk profile is expected to remain above-average in the near term.

Weaknesses

Working capital intensive nature of operations

DCIPL's operations are working capital intensive and has observed further deterioration as evident from gross current assets (GCA) of 222 days for FY 2022 (Provisional). The increment in GCA days is on account of increase in inventory holding period and actual value of debtors. The increase in inventory is on account of increase in work in progress inventory. The company has been able to bring down debtor realization period from 121 days in FY 2020 to 109 days in FY 2021 (Audited) and maintained 109 days in FY 2022 (Provisional). Going forward the operations of the company are expected to remain working capital intensive. As a result the company's reliance on short term borrowings have increased and the company has enhanced its short term cash credit limit from Rs. 19 Cr to Rs. 24.00 Cr. The limit utilization between April 2021 and March 2022 remained at 88.26%. Apart from cash credit limit the company has also availed Rs. 2.64 Cr from National Small Industries Corporation Limited to support working capital operations. The company has also on boarded Oxyzo Financial Services Private Limited to get their bills discounted on material purchases and as a result has managed to bring down creditor period from 55 days in FY 2021 (Audited) to 34 days in FY 2022 (Provisional).

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 Sensitivities

- Substantial improvement in working capital management
- Significant decline in the profitability thereby impact debt coverage indicators.

Material covenants

None.

Liquidity Position

Adequate

The company has adequate liquidity in terms of its Net cash accruals when comparing it to its maturing debt obligations. In FY 2021 (Audited) the company generated NCA of Rs. 11.96 Cr against maturing debt obligation of Rs. 8.43 Cr while in FY 2022 (Provisional) the company generated NCA of Rs. 14.80 Cr against maturing debt obligation of Rs. 10.91 Cr. Going forward the company is expected to generate NCA of Rs. 19.88 Cr in FY 2023 and Rs. 23.53 Cr in FY 2024 against CPLTD of Rs. 7.50 Cr each year respectively. The company maintained unencumbered cash and bank balance of Rs. 2.75 Cr in FY 2022 (Provisional) while its current ratio stood at 1.52 times for the same period.

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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	147.81	136.49
PAT	Rs. Cr.	8.53	7.30
PAT Margin	(%)	5.77	5.34
Total Debt/Tangible Net Worth	Times	1.25	1.60
PBDIT/Interest	Times	2.63	2.84

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Sector: https://www.acuite.in/view-rating-criteria-51.htm
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jun 2022	Cash Credit	Long Term	15.00	ACUITE BBB- | Stable (Reaffirmed)
	Bank Guarantee	Short Term	71.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	24.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- | Stable (Reaffirmed)
03 Mar 2021	Cash Credit	Long Term	15.00	ACUITE BBB- | Stable (Upgraded from ACUITE BB- | Stable)
	Cash Credit	Long Term	5.00	ACUITE BBB- | Stable (Upgraded from ACUITE BB- | Stable)
	Bank Guarantee	Short Term	24.00	ACUITE A3 (Upgraded from ACUITE A4)
	Bank Guarantee	Short Term	71.00	ACUITE A3 (Upgraded from ACUITE A4)
08 May 2020	Bank Guarantee	Short Term	56.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BB- | Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BB- | Stable (Reaffirmed)
	Cash Credit	Long Term	14.00	ACUITE BB- | Stable (Reaffirmed)
	Bank Guarantee	Short Term	24.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Reaffirmed)
08 Apr 2020	Bank Guarantee	Short Term	15.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB- | Stable (Assigned)
	Cash Credit	Long Term	14.00	ACUITE BB- | Stable (Assigned)
	Bank Guarantee	Short Term	56.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	1.00	ACUITE BB- | Stable (Assigned)
	Bank Guarantee	Short Term	24.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	71.00	ACUITE A3 | Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A3 | Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 | Assigned
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- | Stable | Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- | Stable | Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- | Stable | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.