

## Press Release

Dwarakamai Constructions Private Limited

September 23, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.00	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	45.00	-	ACUITE A3   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	64.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B 'minus'**) and short term rating of '**ACUITE A3**' (read as **ACUITE A 'three'**) on the Rs.64.00 crore bank facilities of Dwarakamai Constructions Private Limited (DCPL). The outlook is '**Stable**'.

The rating reaffirmation takes into account the extensive experience of the promoters, above financial risk profile with healthy debt protection metrics. The rating is constrained by working capital intensive operations and susceptibility to tender based operations.

## About the Company

Established in 1995 and based in Anantapur (Andhra Pradesh), Dwarakamai Constructions Private Limited (DCPL) was initially set up as partnership firm 'Dwarakamai Constructions' by Mr. Desai Madan Mohan Reddy other family members. In March 2011, the firm changed its constitution to private limited company and currently is promoted by Mr. Desai Madan Mohan Reddy, Ms. Desai Sreedevi, Mr. A. Hari Krishna Reddy and other family members. DCPL, a family owned business, undertakes civil construction activities primarily that of Roads, Highways and Buildings. The company is a 'Special Class' contractor registered with Government of Andhra Pradesh and Telangana and undertakes works for Public Works Department, Roads & Buildings Department, Irrigation & CAD Departments.

## Analytical Approach

Acuite has considered the standalone financial and business risk profile of Dwarakamai Constructions Private Limited (DCPL) to arrive at the rating.

## Key Rating Drivers

## Strengths

### **Promoters' extensive experience; established track record of operations**

DCPL, a special class civil contractor, has established presence in executing projects related to primarily roads & bridges, irrigations, buildings amongst others for both public and private sector. Mr. Desai Madan Mohan Reddy, the managing director of DCPL, has more than 3 decades of experience in the line of civil construction. With the promoters' extensive industry experience and timely execution of its past projects, DCPL has been able to establish long-standing relationship with various government divisions such as Roads & Building divisions (Anantapur), Panchayat Raj (Anantapur), Roads & Building divisions (Chittoor) amongst others. As on March 31, 2022(Prov), The order book of DCPL consists unexecuted orders of Rs.599Cr as on March 31, 2022, which is ~4 times of FY22 turnover. The unexecuted order book majorly contributed by 2 orders from NHIDCL for highway works in Manipur and Mizoram regions and New contract of Rs.254Cr from Ministry of road transportation and highways for rehabilitation and upgradation of Medak-siddipet highway, Telangana. The company has reported the revenue of Rs.~98 Cr as on August 30, 2022.. Acuite believes that the promoters' extensive industry experience, established relation with its principal contractors and healthy order book will aid DCPL's business risk profile over the medium term.

### **Continued traction in diversification of customer concentration risk and geographical concentration risk**

Order book of DCPL consists most of the orders from Ananthapur District R&B department and Panchayat raj divisions. As DCPL is the reputed construction company in Ananthapur Region, the company is bounded to undertake most of the panchayat raj division projects (mostly state funded). The company had executed orders mostly across Andhra Pradesh and Telangana regions till FY21. In FY21, more than 94 percent of the revenue was contributed by single state i.e. Andhra Pradesh, mostly from R&B divisions and Panchayat raj Divisions. In FY22, Company had won 2 new projects – road widening and development works in Manipur and Mizoram, Ministry of road transportation and highways (Telangana). Presence of geographical concentration risk on the revenue profile till FY21. DCPL has diversified Geographical concentration risk by accepting new orders of Road widening and developments works from NHIDCL for Manipur and Mizoram states in FY22. The total Project cost is Rs.271Cr. It has further received new order worth Rs.254 Cr from Telangana, NHA which reduces the concentration for Anantpur orders.

### **Central and state funded projects ensuring timely receivables**

DCPL executes only tender based projects from central government and state government bodies with low reliance on sub-contract work. The funded projects are either budgetary support or from a consortium of banks. Once the tender is allotted, EMD of around 1.0-2 per cent is deposited along with performance guarantee of around 2.5 – 5.0 per cent. The company raises bills on monthly basis. DCPL has the option of availing mobilization advance but refrains from the same. The retention money is usually 5.0-7.5 per cent of the contract value which is to be released after a defect liability period of 3-5 years. The company receives major portion of the receivable in the 4th quarter of the financial year. DCPL receives payments in 15-20 days from central government projects (NH authority). From State government within 30-45 days.

### **Above-average financial risk profile:**

DCPL has healthy gearing at 0.22 times as on March 31, 2022 (Provisionals) against 0.10 times as on March 31, 2021. The company has long term debts of only Rs.0.27Cr as on March 31, 2022. The short term debt of the company has increased to extent of Rs.5.95Cr as company has availed working capital demand loans. Net worth is comfortable at Rs.31.33Cr as on March 31, 2022(Provisional) against Rs.28.45Cr for previous year. Net worth Increased by Rs.5.71cr on account of healthy accretions of net profit in the reserves. Total outside liabilities to total tangible net worth (TOL/TNW) as on March 31, 2022(Provisionals) is moderate at to 1.63 times from 1.30 times in previous year. Acuite believes that financial risk profile of the company will remain stable over the medium term. DCPL Debt protection metrics are moderate marked by interest coverage ratio, Debt service coverage ratio and Net cash

accruals to total debt (NCA/TD) of 7.10 times, 2.76 times and 0.79 times respectively as on March 31, 2022 (Provisionals) against 4.58 times, 1.91 times and 1.13 times as on March 31, 2021. Acuite believes that financial risk profile of the company will remain stable over the medium term.

## **Weaknesses**

### **Working Capital Management:**

DCPL working capital operations are moderate intensive as evident from Gross Current Assets days of (GCA) 161 days as on March 31, 2022 (Provisionals) against 226 days as on March 31, 2021. Debtor days Increased to 58 days as on March 31, 2022 (Provisionals) from 23 days in March 31, 2021. Creditor days stood at 148 days. The GCA days include the other current asset portion in form of security deposits, retention money and EMD which manifests GCA days at slightly elevated levels. DCPL pays the RM creditors within 30-90 days; however, major portion pertain to expenses payable to sub-contractors leading to high creditors days. The moderate GCA cycle has led to average utilization of 60 percent of bank lines of Rs.8.00 Cr over the past 12 months ending August 31, 2022. Acuite believes that the operations of the DCPL will remain moderately working capital intensive on account of continuous submission of security deposits and retention money.

### **Susceptibility to tender-based operations:**

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuite believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

## **Rating Sensitivities**

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Any deterioration in working capital cycle and liquidity profile of the company.

## **Material covenants**

None

## **Liquidity : Adequate**

DCPL has NCA of Rs.5.71Cr in FY22(Provisionals) against debt repayment obligation of Rs.0.27Cr. The company is expected to generate adequate NCA's in the range of Rs.7.5Cr to Rs.9.00Cr. Unencumbered cash and bank balances stood moderate at Rs.0.05Cr as on March 31, 2022 (Provisionals) with current ratio of 1.63 times. The OD remained moderately utilized at an average of 60 per cent of Kotak Mahindra bank and 11.8 percent of HDFC bank for the 12 months ending August 2022. The company has enhancement proposals with Kotak Mahindra bank of Rs.20cr of BG and Rs.7Cr Overdraft. DCPL's BG utilization is around 80 percent for the period ended August 30, 2022, out of Rs.30Cr of BG DCPL utilized to the extent of Rs.26.Cr. Acuite believes that liquidity profile of the company will remain adequate over the medium term on account of sufficient cash accruals.

## **Outlook: Stable**

Acuite believes that DCPL will maintain a 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook

may be revised to 'positive' if the company registers higher than expected growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or larger-than expected debt-funded capex or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	155.87	76.02
PAT	Rs. Cr.	4.69	2.04
PAT Margin	(%)	3.01	2.69
Total Debt/Tangible Net Worth	Times	0.22	0.10
PBDIT/Interest	Times	7.10	4.58

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

DCPL'S rating was migrated to 'ISSUER NON COOPERATING" status with CRISIL and BWR through its rating rationale dated June 24, 2022 with CRISL and March 11,2022 with BWR.

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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
30 Jun 2021	Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)
	Proposed Secured Overdraft	Long Term	6.00	ACUITE BBB-   Stable (Assigned)
	Secured Overdraft	Long Term	8.00	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3   Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3   Reaffirmed
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-   Stable   Reaffirmed
Kotak Mahindra Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-   Stable   Reaffirmed

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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.

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