



Press Release
Dwarakamai Constructions Private Limited
December 14, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	46.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	64.00	-	-

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**'.

Rationale for reaffirmation of rating:

The rating reaffirmation considers Dwarakamai Constructions Private Limited's (DCPL's) improving operating revenue with range bound EBITDA margin. The company's revenue has grown at a Compounded Annual Growth Rate (CAGR) of 42 percent over the past 3 years aided by healthy order book and timely execution of the works. Further, the company has an outstanding order book worth Rs.898Cr as on September 2023 providing healthy revenue visibility over the medium term. Majority of these orders were awarded on join venture basis and given to piece meal contractors, the commission charges payable to the counter parties is restricting the EBITDA margins in the range of 5-5.5 percent over the past 3 years.

The rating also factors in the healthy financial risk profile and adequate liquidity of the company. Going forward, the company's ability in sustaining the growth in revenue while improving the profitability will be a key monitorable.

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.

Unsupported Rating

Not Applicable

Acuité 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. The order book of DCPL consists unexecuted orders of Rs.922Cr as on March 31, 2023, which is ~4.2 times of FY23 turnover providing revenue visibility over the medium term. Nearly Rs.750Cr of outstanding orders are from central government for Roads and Highways development and balance works are from R&B departments of Telangana, Andhra Pradesh and Karnataka States. Acuité 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.

Improving operating income with range bound margins:

The company's operations have improved significantly during past 3 years primarily contributed by increasing orders. The revenue of DCPL has shown Compounded Annual Growth Rate (CAGR) of 42 percent over past 3 years. During FY23 the company has reported revenue of Rs.218.13Cr against Rs.155.87Cr of previous year. Further the company has reported revenue of Rs.96Cr during the first 6 months of FY24. The company is estimated to register revenue in the range of Rs.220-230Cr for FY24 as majority billing will be done in the last 2 quarters.

The margins of the company are range bound at 5 to 5.5 percent during the past 3 years. DCPL bids orders expecting a margin of 7-7.5 percent however due to the increase in raw material prices like steel, commission charges for JV and piece meal contracts the margins were low at 5 percent over the years. Going forward the margins are expected to be in the similar range over the medium term.

Healthy Financial risk profile:

The financial risk profile of the company has remained healthy with healthy capital structure and debt protection metrics. The net worth of the company stood at Rs.40.37 Cr as on March 31, 2023 against Rs.33.30 Cr during previous year. Improvement in net worth is primarily on account of accretion of profits to the reserves during the year. The gearing of the company remained healthy under unity over the last 3 years, during FY23 DCPL's gearing was marginally deteriorated to 0.40 times against 0.22 times of previous year. The deterioration is due to increase in unsecured loan. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 9.18 times and 4.79 times as on March 31, 2023 respectively as against 7.89 times and 2.96 times as on March 31, 2022 respectively. TOL/TNW stood at 1.40 times and 1.53 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 1.42 times as on 31 March, 2023 as against 0.83 times as on 31st March, 2022. Acuite believes that financial risk profile of the company is expected to remain healthy with absence of long term debt.

Weaknesses

Moderate Working capital management:

The working capital management of the company remained moderate with moderate GCA

days at 131 days as on March 31, 2023 as against 159 days as on March 31, 2022. Inventory days which majorly consist of work-in progress stood at 70 days as on 31st March, 2023 as against 69 days as on 31 March, 2022. Subsequently, the payable period stood at 42 days as on 31st March, 2023 as against 77 days as on 31st March, 2022 respectively. The debtor day stood at 15 days as on 31st March, 2023 as against 41 days as on 31st March, 2022. Further, the average bank limit utilization in the last six months ended October, 23 remained at 30 percent for fund based. Acuité 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. Acuité 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.

All Covenants

None

Liquidity Position : Adequate

DCPL has adequate liquidity which is evident from the sufficient Net cash accruals (NCA) to meet its debt repayment obligations. The company has reported NCA's of Rs. 7.86Cr as on March 31, 2023 against minuscule repayment obligations of Rs.0.65Cr for equipment loans for the same period. These loans are expected to be repaid during FY26. Bank limits were utilized in the range of 30-35 percent during the past 12 months ending October 31, 2023. Further to this, the gross current assets days stood at 131 days during FY23. The company has unencumbered cash and bank balances of Rs.1.14 Cr which provides additional comfort towards liquidity. Going forward, the liquidity is expected to be adequate with net cash accruals in the range of Rs 8-12 Cr over FY24-26 with expected repayment obligations in the range of Rs.0.5-0.06Cr.

Outlook: Stable

Acuité 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 leading to deterioration of its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	218.13	155.87
PAT	Rs. Cr.	7.07	4.85
PAT Margin	(%)	3.24	3.11
Total Debt/Tangible Net Worth	Times	0.40	0.22
PBDIT/Interest	Times	9.18	7.89

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>
- 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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Sep 2022	Bank Guarantee	Short Term	7.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Secured Overdraft	Long Term	8.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Secured Overdraft	Long Term	6.00	ACUITE BBB- Stable (Reaffirmed)
30 Jun 2021	Secured Overdraft	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)
	Proposed Secured Overdraft	Long Term	6.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A3 Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	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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