

Press Release

Daroga Pradhan

August 18, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**)' to the Rs.100.00 crore bank facilities of Daroga Pradhan (DP). The outlook is '**Stable**'.

The rating of Daroga Pradhan is driven by the extensive experience of the management in the infrastructure industry and established market position along with strong association with reputed government clients. The rating also reflects the healthy financial risk profile and adequate liquidity position of the firm. However, these strengths are partially offset by the working capital intensive nature of operation and moderate scale of operation of the firm.

About the company

Established in 1970 as a proprietorship concern and changed its constitution to partnership firm in 2000, Daroga Pradhan is a Jharkhand-based company promoted by Mr. Dinesh Pradhan and Mr. Mahesh Pradhan. The firm is engaged in civil construction work. The firm is registered 'Class A' contractor mainly catering to the Department of Road Construction, Public Works Department (PWD), Housing Board of Government of Jharkhand and Bihar among others.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of DP while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and strong association with reputed clientele

The firm has operational track record of more than 50 years in the infrastructure industry and the partners of the company Mr. Dinesh Pradhan and Mr. Mahesh Pradhan have more than two decades of experience in similar industry. The firm has a long presence in this sector and has established a healthy relationship with customers for more than a decade. The timely execution of the projects has helped the firm to improve its market presence in Jharkhand, and Orissa. Acuite believes that the firm will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term. Further, the firm mainly caters directly to the government entity such as Road construction department, Public Works Department (PWD) and Housing Board – Government of Jharkhand and Bihar among others which will benefit the firm to mitigate the counter party risk.

Healthy profitability margin

The operating profitability margin of the firm stood healthy at 12.54 per cent in FY2021 (Prov.) as compared to 11.56 per cent in the previous year. However, this increase in operating profitability margin is on account of decrease in the input cost for the new projects started during FY2021. Acuite believes that the profitability margin of the firm will sustain at the same level backed by in-built price escalation clause that provides cushion for covering the increased input cost.

The net profitability margin of the firm also stood healthy at 6.27 per cent in FY2021 (Prov.) as compared to 7.17 per cent in the previous year. However, the net profitability margin of the company has declined mainly due to increase in tax expenses during the period. Acuite believes the profitability margin of the firm will be sustained at healthy levels over the medium term backed by their focus on the bottomline and bid in projects

accordingly.

Healthy financial risk profile

The financial risk profile of the firm is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the firm stood moderate at Rs.52.26 crore in FY 2021 (Prov.) as compared to Rs 44.02 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. Acuite has included Rs.12.68 crore of unsecured loan as part of networth as the same amount is subordinated to bank debt. The gearing of the firm stood low at 0.23 times as on March 31, 2021 (Prov.) when compared to 0.24 times as on March 31, 2020. Interest coverage ratio (ICR) is strong and stood at 7.40 times in FY2021 (Prov.) as against 5.59 times in FY 2020. The debt service coverage ratio (DSCR) of the firm also stood comfortable at 4.26 times in FY2021 (Prov.) as compared 2.18 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.78 times in FY2021 (Prov.) as compared to 0.91 times in the previous year. Going forward, Acuite believes the financial risk profile of the firm will remain healthy on account of steady net cash accruals and no major debt funded capex plan.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation of the firm is marked by high gross current asset (GCA) days of 151 days in FY2021 (Prov.) as compared to 113 days in the previous year. This increase in GCA days is due of increase in other current asset during FY2021 (Prov.) which consists mainly of advance tax paid, advance given, statutory deposits and advance to suppliers among others. Moreover, the debtor days of the firm improved to 36 days in FY2021 (Prov.) as compared to 58 days in the previous year. The inventory holding period of the firm has also improved to 10 days in FY2021 (Prov.) as compared to 33 days in the previous year. Further, the working capital limit has been utilized ~83 per cent for the last six months ended June 2021. Acuite believes any further elongation in working capital would be a key rating sensitivity factor.

Moderate scale of operation

The revenue of the firm stood moderate at Rs.108.27 crore in FY2021 (Prov.) as compared to Rs.99.16 crore in FY2020. However, the firm has a healthy unexecuted order book of Rs.394.45crore as on April 2021 imparting revenue visibility over the medium term.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Timely execution of orders
- Further elongation in working capital management

Material Covenant

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by comfortable net cash accruals of Rs.9.17 crore as against only Rs.0.70 crore long term debt obligations in FY2021 (Prov.). The cash accruals of the firm are estimated to remain in the range of around Rs. 10.80 crore to Rs. 11.96 crore during 2022-23 as against minimal long term debt obligations for the same period. The current ratio of the firm stood comfortable at 2.27 times in FY2021 (Prov.). The working capital intensive nature of the firm is marked by high Gross Current Asset (GCA) days of 151 days in FY2021 (Prov.). The bank limit of the firm has been ~83 percent utilized during the last six months ended in June 2021. Moreover, the firm has not availed the any covid emergency fund, neither availed covid moratorium. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of comfortable cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes the firm's outlook will remain stable over the medium term on account of experience of the promoters, long execution track record, healthy order book position and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	108.27	99.16
PAT	Rs. Cr.	6.79	7.11
PAT Margin	(%)	6.27	7.17
Total Debt/Tangible Net Worth	Times	0.23	0.24
PBDIT/Interest	Times	7.40	5.59

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

CRISIL, vide its press release dated July 30, 2021 had denoted the rating of Daroga Pradhan as 'CRISIL B+/Stable/A4' ISSUER NOT COOPERATING; Rating Withdrawn.

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities – <https://www.acuite.in/view-rating-criteria-51.htm>
- 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 (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable (Assigned)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable (Assigned)
Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable (Assigned)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A3+ (Assigned)
Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A3+ (Assigned)
Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A3+ (Assigned)

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