



Press Release
DAROGA PRADHAN
June 02, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	82.00	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to **Acuite BBB'** (read as **ACUITE t riple B**) from **Acuite BB+' (read as ACUITE double B plus)** and its short-term rating to **Acuite A3+' (read as ACUITE A three plus)** from **Acuite A4+' (read as ACUITE A four plus)** on the Rs. 100.00 Cr bank facilities of Daroga Pradhan (DP). The outlook remains 'stable'.

Rationale for the rating upgrade

The rating upgrade takes into consideration the healthy scale of operations of the firm, with consistent improvement over the years aided by a healthy order book position and timely execution of projects. The rating also factors in the strong association of the firm with reputed government clients. The rating also draws comfort from the firm's established track record of operations, experienced management, and healthy financial risk profile, as reflected by the comfortable leverage ratios owing to the firm's low indebtedness. The rating further considers the adequate liquidity position of the firm, supported by sufficient accruals. However, these strengths are offset by the working capital-intensive nature of operations and the competitive nature of the industry.

About the Firm

Established in 1970, Daroga Pradhan (DP) was a proprietorship concern that changed its constitution to a partnership firm in 2000. The firm is managed by Mr. Dinesh Pradhan and Mr. Mahesh Pradhan. DP is engaged in civil construction works and undertakes contracts in the states of Jharkhand and Odisha.

Analytical Approach

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

Key Rating Drivers

Strengths

Long track record of operations, along with experienced management

The firm has established a long presence of over five decades in the infrastructure industry and is managed by Mr. Dinesh Pradhan and Mr. Mahesh Pradhan, who have more than two decades of industry expertise. Aided by experienced management, the firm has developed healthy relationships with reputed government clients, which in turn contributes to the smooth flow of orders.

Acuité derives comfort from the long-standing operations of the firm along with the extensive

experience of the partners and believes that this will continue to benefit the firm going forward.

Improvement in the scale of operations with stable profitability margins

The operating income of the firm increased to Rs. 163.87 crore in FY2023 (provisional) from Rs. 114.45 crore in FY2022 and Rs. 108.32 crore in FY2021, thereby registering a CAGR of 23.23 percent over the two years. The uptrend in revenues is supported by the increase in the order book size and the timely execution of such orders. Further, the firm has an unexecuted order book position to the tune of Rs. 723.12 crore to be completed in the next 18–36 months. Going forward, the unexecuted order pipeline imparts healthy revenue visibility over the medium term.

The operating margin of the firm stood at 10.59 percent in FY2023 (provisional) as against 10.85 percent in FY2022. The marginal decline is on account of an increase in the input costs of the projects. Further, in October 2022, the firm was impacted by the rise in the GST to 18 percent from 16 percent on all the existing orders. However, going forward, the firm expects to recover the reimbursement for the rise in prices, backed by an in-built price escalation clause, on the completion of the respective orders. The PAT margin of the firm rose to 7.96 percent in FY2023 (provisional) as compared to 7.36 percent in the previous year owing to a reduction in the cost of borrowing.

Acuite believes that, going forward, improvement in profitability margins will be key to monitoring.

Healthy financial risk profile

The healthy financial risk profile of the firm is marked by moderate net worth and healthy debt protection metrics. The net worth of the firm stood at Rs. 45.33 crore in FY2023 (provisional) as compared to Rs. 37.24 crore in FY2022 due to the retention of profits. The gearing of the firm stood moderate yet remained below unity at 0.81 times as of March 31, 2023 (provisional), compared to 0.58 times as of March 31, 2022. Going forward, the gearing is expected to remain comfortable over the medium term on account of the low debt burden. The total outside liabilities/tangible net worth (TOL/TNW) stood moderately at 1.91 times as of March 31, 2023 (provisional) as against 1.72 times as of March 31, 2022. The healthy debt coverage metrics are marked by the interest coverage ratio (ICR) at 7.55 times in FY2023 (provisional) as against 5.77 times in FY2022. The debt service coverage ratio (DSCR) of the firm stood at 5.33 times in FY2023 (provisional) as compared to 4.01 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.42 times in FY2023 (provisional) as compared to 0.49 times in the previous year.

Acuite believes the financial risk profile of the firm will remain healthy on account of improving net cash accruals and no major debt-funded capex plan.

Weaknesses

The working capital-intensive nature of operations

The working capital cycle of the firm is intensive in nature, marked by gross current asset days of 213 in FY2023 (provisional) and in FY2022 as well. The high GCA days are primarily on account of debtor days, which improved but stood high at 91 in FY2023 (provisional) as compared to 138 days in FY2022. The high debtor days are primarily on account of the contracts executed for government clients, where the contract proceeds are generally delayed. However, the inventory days of the firm stood comfortably at 67 days in FY2023 (provisional) and 41 days in FY2022.

Going forward, Acuite believes that the working capital cycle will remain intensive, mainly due to the elongated debtor cycle.

Highly competitive industry

The civil construction sector is marked by the presence of several mid- to large-sized players. The firm faces intense competition from other players in the sector. However, this risk is mitigated to an extent on account of the experience of the management and its well-established presence in its terrain.

Rating Sensitivities

- Improvement in the scale of operations along with improving margins
- Sustenance of the capital structure
- Elongation in the working capital cycle

Material covenants

None

Liquidity Position: Adequate

The firm has adequate liquidity, marked by comfortable net cash accruals of Rs. 15.44 crore as against long-term debt obligations of only Rs. 0.98 crore over the same period. The current ratio of the firm stood comfortably at 1.73 times in FY2023 (provisional). The fund-based bank limit of the firm is utilised moderately at 75 percent over the six months ended March 2023. The cash and bank balances stood at Rs. 18.31 crore (provisional). However, the working capital intensive nature of the firm is marked by high Gross Current Asset (GCA) days of 213 in FY2023 (provisional). Acuité believes that the liquidity position of the firm is likely to remain adequate over the medium term on account of improving cash accruals as opposed to a low debt repayment burden over the medium term.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'stable' over the medium term on account of the long track record of operations, experienced management, sound business position, and above-average financial risk profile. The outlook may be revised to 'positive' in the case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure, and working capital management. Conversely, the outlook may be revised to 'negative' in the event of a decline in the company's revenues or profit margins, a deterioration in the company's financial risk profile, a delay in the completion of its projects, or a further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	163.87	114.45
PAT	Rs. Cr.	13.05	8.43
PAT Margin	(%)	7.96	7.36
Total Debt/Tangible Net Worth	Times	0.81	0.58
PBDIT/Interest	Times	7.55	5.77

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

Not Applicable

Any other information

Not Applicable

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

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
15 Nov 2022	Bank Guarantee	Short Term	19.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Cash Credit	Long Term	6.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	29.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	34.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
18 Aug 2021	Proposed Bank Guarantee	Short Term	34.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	19.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	29.00	ACUITE A3+ (Assigned)
	Proposed Cash Credit	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
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	19.00	ACUITE A3+ Upgraded
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	29.00	ACUITE A3+ Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB Stable Upgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	34.00	ACUITE A3+ Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB Stable Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Geeta Karira Analyst-Rating Operations Tel: 022-49294065 geeta.karira@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.