Press Release

DHATARWAL CONSTRUCTION COMPANY PRIVATE LIMITED

August 04, 2023

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	ACUITE BBB | Stable | Assigned	-
Bank Loan Ratings	83.00	-	ACUITE A3+ | Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

ACUITE has assigned its long term rating of **ACUITE BBB(read as ACUITE Triple B)** and its short term rating of **ACUITE A3+(read as ACUITE A three plus)** on the Rs.100 Crore bank facilities of Dhatarwal Constructions Company Private Limited (DCCPL). The outlook is '**Stable**'.

Rationale for Rating

The rating assigned reflects healthy growth in revenues in FY23 (Prov) to Rs 397.14 Cr against Rs 205.29 Cr in FY 22, backed by an increased execution of orders. During the same period, net cash accruals grew steadily, supported by a sharp improvement in operating profit margins owing to the execution of high-margin orders and economies of scale. Further, the rating considers the established track record of more than a decade in the industry which has helped DCCPL's to create moderate order book position at ~Rs. 667.20 Cr as on May 31, 2023 (Prov) translating into an order book/operating income of 1.68x providing medium-term revenue visibility. The operating profit margin is also expected to improve going forward. Additionally, the financial risk profile has remained healthy, with gearing below unity and improvement in the debt coverage indicators, because of the consistent increase in the net-worth, and adequate cash accruals over the years. These strengths are however, partly offset by the working capital intensity in the operations and highly competitive nature of industry due to tender based operations.

About the Company

Dhatarwal Construction Company Private Limited was incorporated in 2009 and is based in Haryana. The company is engaged in engaged into construction and development of road projects on EPC basis for government departments. Currently the company is managed by Mr. Rajbir Singh, Mr. Narinder and Mr. Somvir Singh.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of DCCPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

The company has a long track record of over a decade in the civil construction business with an established track record of project execution related to road infrastructure on EPC basis for government departments. Currently the company is managed by Mr. Rajbir Singh, Mr. Narinder and Mr. Somvir Singh, who has been associated with this industry for over a decade.

Acuité believes that its long-established market presence and successful completion of the past contracts will help to secure fresh orders going forward.

Improvement in the scale of operation coupled with steady margins

The revenue of the company has improved to Rs.397.14 Crores in FY23 (Prov) against Rs.205.29 Crores in FY22 and Rs.205.05 Crore in FY21. The increase in the revenue is on an account of increase order execution. Further, the company also has a healthy order book position of Rs.667.20 Crores as on July 2023 which provides revenue visibility over the medium term.

The operating margins of the company improved and stood comfortable at 10.25% in FY23(Prov) against 9.86% in FY22. The net profitability margins of the company also stood healthy at 5.07% in FY23(Prov) against 4.74% in FY22. Acuité believes the profitability margin of the company will be sustained at healthy levels over the medium term backed by the management's focus on the bottom line and bidding in the projects accordingly.

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by moderate net worth, gearing and above average debt protection metrics. The networth of the company stood at Rs.70.34 Crore as on 31st March 2023(Prov) against Rs.50.19 Crore as on 31st March 2022. The increase in the net worth of the company is majorly due to accretion of profits to the reserves. The total debt of the company stood at Rs.60.79 crore as on 31st March 2023(Prov) against Rs.71.11 Crore as on 31st March 2022. Also, in FY22, company undertook a debt-funded capital expenditure which helped the company to execute the projects wherein the total cost of the project stood at Rs. Rs.51 Crores approximately. Further, the gearing ratio of the company improved and stood at 0.86 times as on 31st March 2023(Prov) against 1.42 times as on 31st March 2022. The TOL/TNW ratio stood at 1.69 times as on 31st March 2023 (Prov) against 2.55 times as on 31st March 2022. In addition, the debt protection metrics stood comfortable with interest coverage ratio and debt service coverage ratio of the company stood at 9.09 times and 2.46 times respectively as on 31st March 2023 (Prov) against 9.07 times and 1.45 times respectively as on 31st March 2022.

Going forward, Acuité believes the financial risk profile of the company will remain moderate on account of steady net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Working capital intensive operations

The working capital intensive nature of operations of the company is marked by GCA days which stood at 105 days in FY23 (Prov) against 169 days in FY22. This improved GCA days of the company is mainly emanates from the other current asset of Rs.19.98 crore in FY23 (Prov.) against Rs.49.20 Crores in FY22, which mainly consists of advance to parties, TDS receivables among others. Further, the debtor days of the company has improved to 29 days in FY23 (Prov) against 32 days in FY22. The average collection period remains in the range of 25-30 days. On the other hand, the creditor days of the company stood at 35 days in FY23 (Prov) against 102 days in FY22. The average non-fund based bank limit utilization stood at 70-80% in last 12 months ending March 2023 (Prov).

Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Highly Competitive Industry

The infrastructure is a fairly fragmented industry with a presence of few large pan India players where subcontracting & project specific partnerships for technical/financial reasons are fairly common. The company faces stiff competition with its competitors in procuring orders through bidding, immense competition for procuring tenders leads to very competitive pricing which in turn lead to stress on the margins. Moreover, susceptibility of raw material pricing again keeps profit margin vulnerable risk and key sensitivity factor. However, presence of price escalation clause prevents the company from exposure to raw material price fluctuations to some extent. Also, the vast experience of the promoters gives the company an edge in procuring big size ticket orders but the stability of the order size in diversified segment is the key sensitive factor.

Rating Sensitivities

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.
- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.

Material covenants

None.

Liquidity Position

Adequate

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.29.02 Crores as on 31st March 2023(Prov) against the debt repayment obligations of Rs.9.02 Crores in the same period. The company is expected to generate a net cash accruals under the range of Rs.30-35 Crores against the debt repayment obligations under the range of Rs.15 Crores in the near to medium term. The current ratio of the company stood at 1.63 times as on 31st March 2023(Prov) against 1.41 times as on 31st March 2022. The average bank limit utilization of non-fund based bank facilities stood at 70%-80% in last 12 months ending March 2023.
Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against loan debt repayments over the medium term.

Outlook: Stable

Acuité believes that DCCPL will continue to maintain a ‘stable’ outlook over the medium term due to its experienced management and established track record along with healthy order book position. The outlook may be revised to 'Positive', in case of higher than-expected revenues and profitability, while maintaining its capital structure and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case DCCPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	397.14	205.29
PAT	Rs. Cr.	20.14	9.74
PAT Margin	(%)	5.07	4.74
Total Debt/Tangible Net Worth	Times	0.86	1.42
PBDIT/Interest	Times	9.09	9.07

Status of non-cooperation with previous CRA (if applicable)
None

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
In order to inform the investors about complexity of instruments, Acuité 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 :
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A3+ | Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	33.00	ACUITE A3+ | Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	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.