Press Release

Deepak Builders & Engineers India Private Limited

February 08, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities (Non-Fund Based)	175.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Long Term Bank Facilities (Fund Based)	30.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned
3.	Proposed Long Term Facility (Non-Fund Based)	40.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	**245.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of **Deepak Builders & Engineers India Private Limited** draws comfort from its experienced promoters and top Management, Reputed Clients and Growing scale of operations with Strong credit metrics. However, these rating strengths are partially offset by its Tender-based nature of operations, intense competition in the industry and susceptibility to volatility in raw material prices. The Rating also considers the Strong order book position of the firm reflecting satisfactory medium-term revenue visibility.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations by successfully completion of order in hands with improvement in profitability leading to improvement in debt protection metrics on a sustained basis.
- Sustenance of the capital structure
- Diversification in customer base and projects undertaken.

Downward factor:

- Moderation in the scale of operations and /or profitability impacting the debt protection metrics and leading to lower cash accruals.
- Moderation in the capital structure with deterioration in overall gearing and TOL/TNW
- Incremental working capital or capex requirements weakening capital structure.
- Stretch in liquidity with limit utilization continuously remaining over 95%

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operations under experienced management**

The company is promoted by Mr. Deepak Singal who possess more than 35 years of experience in the civil construction industry. The long track record of operations of the management has helped the company to establish relations with its customers resulting in repetitive orders and new tenders from various government departments across North region.

- **Increased scale of operations with improvement in operating profitability**

The firm witnessed YOY improvement in total operating income by 29% in FY20, from INR 238.83 Cr in FY19 to Rs.309.90 Cr in FY20 on account of higher work order execution backed by rapid execution of ongoing projects in FY20 as against previous year.

- **Healthy order book position indicating a short to medium term revenue visibility**

The company has confirmed order book of ~Rs.813 crore depicting medium to long term revenue visibility, which is to be executed by FY22, the orders in hand accounts to ~2.63x of its FY20 total operating revenue.

- **Geographical diversification in order book**

Most of the projects are to be executed in the state of Punjab (8) constituting ~18.93% of the orders book with 3 projects in Delhi constituting ~31.61% of the order book, 4 projects in Chandigarh constituting ~42.51% of the order book and 1 project each in Uttarakhand and Haryana. This diversification in order book provides stability with less reliance on specific state, client, segment & project.

- **Reputed clientele albeit customer concentration**

The company mainly caters to government departments and gets business through tender bidding. The company has managed to come on the approved list of contractors with Punjab Government, Department of Punjab Public Works Departments, Municipal Corporation Ludhiana and Local bodies in Punjab. However, top 5 customers cater to around 63.31% of its total operating income in FY20, indicating a concentrated customer profile. Though customers being government departments impart comfort with low counterparty risk.

Key Rating Weaknesses

- **Moderated capital structure and operating profitability margins**

The overall gearing of the firm remained moderate but improved from 2.92x in FY19 to 2.05x in FY20, due to reduction in total debt as on March 31, 2020. The net worth stood healthy at of INR 52.65 crore as on March 31, 2020 as against INR 38.96 crore in the previous year, improved in FY20 by way of ploughing back of profits into the business. Further, total indebtedness of the company as reflected by TOL/TNW remained moderate but improved at 3.23x as on March 31, 2020 (TOL/TNW at 4.12x in FY19). The EBITDA margin of the firm has slightly moderated from 9.99% in FY19 to 9.31% in FY20, however remained comfortable owing to efficient management of its operating expenses.

- **Margins remain susceptible to volatility in raw material prices**

Normally most of the contracts have escalation clause. The price of the commodities such as steel and cement, which are major raw material, are analysed by govt. agencies every month. However, the company’s inability to directly transfer the burden of volatility in raw material prices to the government departments leading to pressed margins cannot be ruled out.

- **Working capital intensive nature of operations**

The operating cycle remained elongated at 61 days as on March 31, 2020 (however improved from 68 days in FY19) majorly due to stretched inventory of 89 days and need to provide earnest money, security deposit, and margin for bank guarantees, due to tender-based nature of business. Working capital requirements are partially met by stretching creditors. Timeliness of receivables from government entities remains a key monitorable.

- **Tender Based Business in highly fragmented & competitive infrastructure sector**

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. The firm acquires orders mainly by bidding for tender's floated by government authorities. The firm's scale of operations is hence susceptible to its ability to successfully bid for new tenders and timely completion of projects. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. The firm revenue is dependent on success of winning the tenders in a competitive bidding process, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. Moreover, the firm is largely dependent on timely payments by government departments to the firm for the work undertaken. Delay in payments can have a negative impact on the business.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity position of the firm remained adequate marked by its sufficient gross cash accruals in the range of INR 22.14 Cr - INR 29.14 Cr during FY21-23 projections as against scheduled debt repayment of INR 4.56 Cr – INR 5.95 Cr in the same period. The GCA stood at INR 16.66 Cr in FY20 as against scheduled debt repayment of INR 8.65 Cr and matches comfortably. The current ratio of the firm stood satisfactory at 1.38x in FY20 and unencumbered cash and bank balances stood at INR 0.76 Cr in FY20 indicating limited headroom for any capex.

About the Company

Deepak Builders & Engineers India Pvt Ltd (DBEPL) was initially incorporated in 1987 as a partnership firm by the name of 'Deepak Builders'. The constitution was changed as company on 31.03.2018 with Mr. Deepak Kumar Singal & Mrs. Sunita Singal as its directors. Mr. Deepak Kumar Singal has experience in construction line for the last 25 years. DBEPL constructs and maintains bridges and roads and undertakes government projects. It constructs offices, hospitals, and other government buildings north Indian states of Punjab, Haryana, Delhi & Uttarakhand.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	238.83	309.90
EBITDA	23.85	28.86
PAT	3.00	13.69
Total Debt	113.60	107.74
Tangible Net worth	38.96	52.65
EBITDA Margin (%)	9.99%	9.31%
PAT Margin (%)	1.25%	4.40%
Overall Gearing Ratio (x)	2.92	2.05

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Bank Guarantee	Long Term	175.00	IVR BBB-/ Stable Outlook	-	-	-
2.	Over Draft	Long Term	30.00	IVR BBB-/ Stable Outlook	-	-	-
3.	Proposed Bank Facility – Bank Guarantee	Long Term	40.00	IVR BBB-/ Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Over Draft	-	-	-	30.00	IVR BBB-/ Stable Outlook
Long Term Bank Facility-Bank Guarantee	-	-	-	175.00	IVR BBB-/ Stable Outlook
Proposed Long Term Bank Guarantee	-	-	-	40.00	IVR BBB-/ Stable Outlook