# Dream Construction

August 02, 2022

**Ratings**

| Facilities | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 25.00 | CARE BBB-; Stable (Triple B Minus; Outlook: Stable) | Reaffirmed |
| Short Term Bank Facilities | 50.00 (Enhanced from 35.00) | CARE A3 (A Three) | Reaffirmed |
| **Total Bank Facilities** | **75.00 (₹ Seventy-five crores only)** | | |

Details of instruments/facilities in Annexure-1.

**Detailed rationale and key rating drivers**

The ratings reaffirmation to bank facilities of Dream Construction (DC) takes cognizance of experience of the partners in the construction sector, sustained total operating income (TOI) during last three fiscals ended FY22 (provisional, refers to period April 01 to March 31), continued healthy operating profit margins notwithstanding the unprecedented rise in key input prices and supply chain disruptions owing to Covid-19 pandemic and comfortable financial risk profile. The ratings also factor in, moderately diversified outstanding order book as on June 15, 2022, spread across sectors- roads, irrigation and railways with moderately strong counterparties, adequate own fleet base and efficient execution capability resulting in repeat orders.

The ratings strengths are however tempered by concentration in order book, high gross current asset days and partnership nature of constitution carrying inherent risk of capital withdrawals. The firm is also exposed to risk associated with tender based business and presence in a fragmented construction sector.

**Rating sensitivities**

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Sustained turnover of over ₹300crs while maintaining healthy operating profitability.
- Reduction in gross current asset days to below 100 days on a sustained basis.
- Diversification in order book along with order book to sales ratio of 2x and above.

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Significant delays in executions of on-going projects.
- Deterioration in PBILDT margin below 10% on a sustained basis.
- Withdrawal of capital from the firm resulting in deterioration of overall gearing ratio above 1x on a sustained basis.

**Detailed description of the key rating drivers**

**Key rating strengths**

**Experienced Partners:** DC is a partnership concern formed by Mr. Kiran Damodar Tadvi (50%), Mr. Narendra Dhingarmal Burad (35%) and Deepak Gautamchand Kochar (15%). Mr. Kiran Damodar Tadvi is a Civil Engineer and possesses 27 years of experience in the construction business. He looks after overall execution of the project. Mr. Narendra Dhingarmal Burad and Mr. Deepak Gautamchand Kochar, are graduates and bring in around 25 years of experience from civil construction business. Given the partnership nature of the constitution, the firm has witnessed instances of capital withdrawals and infusions, however during last five years ended FY22, the partners have infused ₹37.44 crore (net of withdrawals) in the firm. No further capital withdrawals are expected in near term of 2-3 years.

**Sustained total operating income coupled with healthy profit margins:** During FY19 to FY22, the firm registered a CAGR of 7% in TOI coupled with healthy operating margin (9.03% in FY19, 15.97% in FY22). The same was on the back of sufficient orders in hand for execution which were also high in margins particularly the Hybrid Annuity Model (HAM) road projects. During Q1FY23, the firm booked an income of ₹132.26crore. Going ahead as well execution of HAM road projects / large ticket orders are expected to drive the income and profit margins of the firm. DC also has adequate fleet size (fixed asset turnover ratio of 3.66x in FY22) which results in lower subcontracts/hiring expenses leading to better margins. The profit margins are also expected to remain strong due to strategic selection of projection location resulting in minimal mobilization of resources and hence cost effective.

**Comfortable capital structure:** Capital structure of the firm is comfortable with overall gearing below unity at 0.50x as on March 31, 2022. Debt in the books comprises of machinery loans, unsecured loans from partners and working capital borrowings. Unsecured borrowings are interest bearing however do not have any scheduled repayments. Capital structure is expected to remain below unity with nil capital withdrawals estimated coupled with no major debt exposures.

**Sectorally diversified order book:** DC has an outstanding order book of ₹558.63 crore as on June 15, 2022, which provides revenue visibility over medium run (order book to sales ratio: 3.12x based on FY22 billings). Order book is decently spread across sectors, roads (58.76%), irrigation (29.64%) and railways (11.60%). Average ticket size of the contracts is close to ₹40-50 crore The outstanding order book has moderately strong counterparties given government bodies like Public Works Department (PWD), municipal corporation and Maharashtra railways. The largest order is from PWD, Maharashtra (received through subcontract from

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

one of the related SPVs) for development of two-lane road with paved shoulders under Maharashtra Road Improvement Program (MRIP) Package AU-L1 in Osmanabad, Latur district, Maharashtra. The project is to be executed over a period of 2.6 years ending May 31, 2024. Around 77.13% of the order book is also inbuilt with price escalation clause.

**Key rating weaknesses**

**Order book concentration risk:** The outstanding order book consists of contracts from government authorities which are either bagged directly or indirectly via subcontract. Order book is concentrated with top three residual orders contributing 70.38% of the outstanding orders in hand as on June 15, 2022. The order book is also exposed to region specific event risk being in single territory- state of Maharashtra (largely). Noteworthy to mention, that around 56% of the unexecuted orders in hand as on said date are from related SPVs including the highest residual value order comprising 53% of the order book.

**High gross current asset days:** DC has stretched Gross current asset days (GCADs) close to 200 days (in FY19-22) on account of pending collection from one of related Special purpose vehicle (SPVs) against execution of HAM road project in FY22. In addition, retention money till defect liability period of 1 year post completion of contracts and extension of advances to suppliers also add to stretched GCADs. Nevertheless, DC, has realised the 88% of the pending collections of March 2022 as on July 08, 2022.

**Presence in an intensely competitive & fragmented construction industry**: DC operates in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies, these projects are lucrative for all the contractors and hence are highly competitive. Nevertheless, aggressive bidding or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the company and exert pressure on profitability. Construction sector is the backbone for building infrastructure assets like roads, buildings, bridges, canals amongst others. Given the importance of infrastructure sector to the Indian economy, government also helped the sector through policy initiatives. The sector continues to have a stable outlook and the companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

**Liquidity: Adequate:** DC has an adequate liquidity marked by free cash balance of ₹13.31crore as on May 31, 2022, and adequate cash flows from operations. Collection period has remained moderate at about 60 days. Average CC utilization remained satisfactory at 89.45% for the last 12 months ended May 31, 2022. In addition, the firm has exposure to non-fund-based limits to the extent of ₹20crore which largely remained utilised at 83.65% as on June 30, 2022. Going forward, the company is estimated to achieve gross cash accruals in the range of ₹20-30 crore as against repayment obligations of ~₹10crore annually. Further no major investments in assets are proposed in near future.

**Analytical approach:** Standalone.

**Applicable criteria**

Policy on default recognition
Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

**About the company**

Incorporated in 2018, Dream Construction is a partnership firm. The partners have more than 15 years of experience in execution of Engineering, Procurement, and Construction (EPC) works. DC undertakes infrastructure development projects for government, semi-government and private entities. It is a technically qualified firm and has executed many contracts across segments- irrigation works, roads, bridges, railway projects etc. during the span of past four years. DC is a registered class-I (civil) contractor with Maharashtra government. The partners at their individual capacity also hold stake in SPVs, namely Dondaicha Betawad Annuity Infrastructure Private Limited (rated CARE BBB-; Stable), Shegaon Infrastructure Pvt. Ltd, SBDNSK165 Buildcon Private Limited and OSD Beed Latur Au 1 Stateways Private Limited for which DC has remained an EPC contractor.

| Brief Financials (₹ crore) | FY21 (A) | FY22 (Prov.) | Q1FY23 (U/A) |
|---|---|---|---|
| Total operating income | 178.83 | 179.68 | 132.26 |
| PBILDT | 20.11 | 28.69 | 21.02 |
| PAT | 13.25 | 21.71 | NA |
| Overall gearing (times) | 0.30 | 0.50 | NA |
| Interest coverage (times) | 5.56 | 5.22 | NA |

A: Audited: Prov.: Provisional; U/A: Un-audited; NA: Not available

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company**: Annexure-4

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-fund-based - ST-Bank Guarantee | - | - | - | - | 20.00 | CARE A3 |
| Fund-based - LT-Cash Credit | - | - | - | - | 5.00 | CARE BBB-; Stable |
| Fund-based - LT-Cash Credit (Proposed) | - | - | - | - | 20.00 | CARE BBB-; Stable |
| Non-fund-based - ST-Bank Guarantee (proposed) | - | - | - | - | 30.00 | CARE A3 |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Non-fund-based - ST-Bank Guarantee | ST | 20.00 | CARE A3 | 1)CARE A3 (18-Jul-22) | - | - | - |
| 2 | Fund-based - LT-Cash Credit | LT | 5.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (18-Jul-22) | - | - | - |
| 3 | Fund-based - LT-Cash Credit | LT | 20.00 | CARE BBB-; Stable | 1)CARE BBB-; Stable (18-Jul-22) | - | - | - |
| 4 | Non-fund-based - ST-Bank Guarantee | ST | 30.00 | CARE A3 | 1)CARE A3 (18-Jul-22) | - | - | - |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Nil

**Annexure-4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Non-fund-based - ST-Bank Guarantee | Simple |

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please click here

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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