Dhruv Consultancy Services Limited

April 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	20.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A3 (A Three)	Reaffirmed
Short Term Bank Facilities	-		Withdrawn
Total Facilities	31.00 (Rs. Thirty-One Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has withdrawn the ratings assigned to one of the short term bank facilities of Dhruv Consultancy Services Limited (DCSL) with immediate effect on the basis of no dues as the same is paid off by the client and confirmed with the lender.

The reaffirmation of ratings assigned to the bank facilities of DCSL continue to derive growth in scale of operations along with improvement in operating profitability margin to above average levels despite the impact of COVID-19 led restrictions and improvement in working capital turnover as exhibited by moderate reduction in working capital cycle.

The rating continues to derive strength from vast experienced promoters in the infrastructure consultancy services, long track record of projects executed in the past, strong order book position with diversified services in the offering and comfortable capital structure.

The above rating strengths are partially offset by modest scale of operations, working capital intensive nature of operations coupled with high collection period, customer and geographical concentration with tender driven nature of business, reliance on large workforce and competition from existing players in infrastructure consultancy.

Outlook: Stable

Rating Sensitivities

Positive Sensitivities-

- Sizeable increase in scale of operations to around Rs.150 crore while maintaining its above average profitability margins.
- Improvement in the collection period reaching below 100 days with utilization of the working capital limits reaching below 75% on a sustained basis

Negative Sensitivities

- Deterioration in capital structure and debt coverage indicators with overall gearing exceeding a unity level with interest coverage reaching below 3x on a sustained basis.
- Deterioration in the profit margins with PBILDT and PAT margins reaching below 10% and 4% on a sustained basis
- Elongation in operating cycle or sizeable capex resulting into higher reliance on debt and putting pressure on the liquidity parameters as well as financial risk profile of the company

Key Rating strength

Experienced promoters: Mr. Pandurang Dandawate, Chairman and Non-Executive Director, has overall more than three and half decades of experience in the industry. Ms. Tanvi Auti, currently Managing Director, has an overall more than a decade of experience in the industry and has been associated with the company since last four years. The promoters have been instrumental in bringing the company at its current stature from modest beginning. The promoters are ably supported by experienced personnel who handle day-to-day operations.

Long track record of project executed during past: The company has provided consultancy services on around 51 projects in the area of highways, bridges, tunnels, architectural, environmental, engineering and ports etc. The consultancy services were provided on projects bagged largely from government bodies and public sector undertakings. The company is empaneled with banks and government bodies, thus deriving significant revenues through repeat orders.

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

Strong order book position with diversified services in the offering: The company has strong order book position of Rs. 173.19 crore as on February 21, 2022 (vis-à-vis Rs. 191.30 crore as on March 11, 2021) which is around 2.87x of total sales of FY21, and the same is to be executed in span of two-three years depending on the nature work to be executed, providing medium-term revenue visibility of the company. Further, the company has received Letter of Award (LOA) for a total of 7 projects amounting to Rs. 40.95 crore as on February 21, 2022 (over 11 projects amounting to Rs. 55.72 crore as on March 17, 2021) which are included in order book position. These projects are located in Maharashtra and Eastern as well as Northern India.
The order book is geographically diversified in more than five state. The diversification reduces the risk arising from any policy or geo-political changes in a particular region as well as exposure to risks related to delay in clearances. The counterparty risk also remains low as the entire order book is awarded by government entities, including urban local bodies.

Above average profitability margins: The PBILDT margins increased from 8.02% in FY20 to 10.21% in FY21 on account of many projects got completed towards the end of the March; however incurred the employee cost for the same in previous year. PAT margin also increased from 2.16% in FY20 to 4.39% in FY21 with reduction in interest and depreciation cost. Further PBILDT margin and PAT margins have improved in 9MFY22 and stood at 17.22% and 10.95% respectively. Gross cash accruals stood moderate at Rs.6.67 crore in 9MFY22. The company has above average profitability margins as currently the company is diversifying it services by exploring into solid waste management, Solar System and Structure Repairs etc. This has also resulted in better margins for the company in 9MFY22.

Comfortable financial risk profile: The financial risk profile of the company stood comfortable and moderate debt coverage indicators. DCPL's overall gearing remained stable at 0.22 times as on March 31, 2021and as on March 2020 with debt level remained the same and increase in net worth base backed by accretion of profit to reserves. Besides, the company is planning to infuse equity which shall further improve the capital structure and improve the liquidity. Moreover, DSCL's total debt to GCA and interest coverage though have improved in FY21, it continues to remained moderate at 2.95 times and 4.45 times as on March 31, 2021 respectively (vis-à-vis 5.19 times and 2.34 times as on March 31,2020 respectively).

Key Rating Weaknesses
Modest scale of operations The Total operating income of the company increased by 22.47% in FY21 from Rs. 49.12 crore in FY20 to Rs.60.16 crore in FY21 due to faster execution of orders which were delayed due to lockdown imposed on account of COVID-19 pandemic situation. Further during 9MFY22 (refers to the period April 01, 2021 to December 31, 2021) the company has achieved the total operating income of Rs.55.34 crore. Nevertheless, the scale of operations continue to remain modest.

Working capital intensive nature of operations coupled with high collection period: DSPL's focus on improving working capital turnover has resulted in improvement of average collection period from 203 days in FY20 to 148 days in FY21. Thus the working capital cycle reduced from 192 days in Fy20 to 137 days in FY21. Despite improvement in working capital cycle, it continues to remained elevated since the realization of debtors has been relatively slower as the company is into business of consultancy services for infrastructure industry wherein the clients are largely government or PSUs. Hence, the entity had to rely on external working capital borrowings leading to high utilization in last twelve-months ended on January 2022.

Reliance on large workforce: The infrastructure consultancy services involves large number of workforce for executing the assignments for clientele on time. As on March 31, 2021, the company had 320 employees including ~200 engineers. The employee costs for the company has decreased from Rs. 21.79 crore in FY20 to Rs. 17.92 crore in FY21 mainly cost cutting measures taken by company in light of covid-19 pandemic during FY21. Further, depending on the needs of the business, the company outsources certain contracts to the third-party service providers time to time.

Dependence on infrastructure project awarded by government bodies and geographical concentration with tender driven nature of operations: The company is principally involved in consultancy services of infrastructure sector to government bodies viz. Further, DCSL majorly deals with various government organizations viz. MNRE, CREDA, OREDA, NREDCAP, TNREDCO, CESC, CESCOM, REC (Rural Electrification Corporation) for which it has to participate in the tenders and hence has to face the risk of successful bidding for the same. Furthermore 95% of the revenue is generated from government bodies. Moreover, the tenders from the government bodies are mainly dependent on the budgetary fund allocations and hence remained cyclical in nature. Any change in governments' framework for consultancy service providers could have an impact on the operations of the company. Also, failure to bag newer projects could also impact the operations of the company. During FY21 the geographical coverage of the company has widen and have covered northern area like Jharkhand, Odisha, Manipur, Bihar etc. about 60% revenue of DCPL has generated from state of Maharashtra since most of the clientele of the company are largely based in the state of Maharashtra.

Competition from existing players: Numerous market participants and increasing market entrants with a variety of project deliverables have let organizations with an option to choose the right consulting firm for right prices for a particular project. Smaller and emerging consultancy companies face the challenge of gaining market share. Hence, the consultancy industry has intense competition from various competitors that seek to provide consultancy services.

Liquidity position: Adequate
DSCL's operations are working capital intensive in nature primarily due to its funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities. Moreover, DSCL's order book consist of multiple large and mid size projects resulting in higher working capital intensity. Consequently, the proportion of subcontracting remained high and utilisation of fund-based working capital limits remained high during the trailing twelve months ended on January 2022. Further the company in process of getting sanction of enhanced bank facility and is also planning to infuse equity which remains crucial from liquidity perspective. Besides, the current ratio stood comfortable at 2.82 times as on March 31, 2021 (vis-à-vis 2.69 times as on March31, 2020). Further net cash flows from operations stood positive at Rs. 3.05 crore in FY21 (vis-à-vis Rs. 2.42 crore in FY20).

Analytical approach: Standalone.

Applicable criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Service Sector Companies
Financial Ratios (Non-Financial Sector)
Policy on Withdrawal of ratings
Liquidity Analysis of Non-financial sector entities

About the Company
Incorporated in the year 2003, Dhruv Consultancy Services Limited is engaged in the business of consultancy services for infrastructure industry. The company is involved in providing design, engineering, procurement, construction and integrated project management services for highways, bridges, tunnels, architectural, environmental engineering and ports. Their services include preparation of detailed project report (DPR) and feasibility studies for infrastructure projects, operations & maintenance (O&M) works, project management consultancy (PMC) services, independent consultancy, project planning, designing, estimation, traffic & transportation engineering, financial analysis, technical audits, structural audit, inspection of bridges and techno legal services.

Brief Financials (Rs. crore)	***FY20 (A)***	***FY21 (A)***	***9MFY22(UA)***
Total operating income	49.12	60.16	55.34
PBILDT	3.94	6.14	9.53
PAT	1.06	2.64	6.06
Overall gearing (times)	0.22	0.22	NA
Interest coverage (times)	2.34	4.45	11.62

A: Audited , NA- Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.00	CARE BBB-; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	5.00	CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	20.00	CARE BBB-; Stable / CARE A3
Fund-based - ST-Bank Overdraft		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Stable	1)CARE BBB-; Stable (05-Apr-21)	1)CARE BBB-; Stable (20-Apr-20)	-	1)CARE BBB-; Stable (04-Feb-19)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	5.00	CARE A3	1)CARE A3 (05-Apr-21)	1)CARE A3 (20-Apr-20)	-	1)CARE A3 (04-Feb-19)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	20.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (05-Apr-21)	1)CARE BBB-; Stable / CARE A3 (20-Apr-20)	-	1)CARE BBB-; Stable / CARE A3 (04-Feb-19)
4	Fund-based - ST-Bank Overdraft	ST	-	-	1)CARE A3 (05-Apr-21)	1)CARE A3 (20-Apr-20)	-	1)CARE A3 (04-Feb-19)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Company should maintain 25% NWC during currency of loan
	Minimum DSCR of 1.33x to be maintained all times
	Current ratio >=1.33 times
B. Non financial covenants	
I. Expansion/ Joint Venture	Any expansion by way of joint venture or further dilution of equity should be duly informed to bank

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	Fund-based - ST-Bank Overdraft	Simple
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
4	Non-fund-based - LT/ 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 instrument: *CARE 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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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