Dilip Buildcon Limited

March 09, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,940.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	4,500.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Long Term / Short Term Bank Facilities*	-	-	Withdrawn
Total Bank Facilities	**6,440.00 (Rs. Six Thousand Four Hundred Forty Crore Only)**		
Non Convertible Debentures	300.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**300.00 (Rs. Three Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1
**the ratings assigned to the project specific Bank guarantee facilities (LT/ST) has been withdrawn as there is no outstanding as on date against the said facilities.*

Detailed Rationale and Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and long-term instruments of Dilip Buildcon Limited (DBL) continues to take into consideration DBL's leading position in the Indian construction sector with strong project execution capabilities leading to early completion of its projects and consequently earning performance bonus, ownership of large equipment fleet, strengthened and geographically diversified order book across different segments like roads and highways, mining, irrigation, metro (civil work), airport, railways etc., experienced promoters, large scale of operations, healthy operating profitability, good financial flexibility and benefits expected from various initiatives undertaken by the Government of India to mitigate challenges and bottlenecks being faced by the road construction sector.

The ratings further take into consideration the infusion of sizeable equity commitments in its 12 under construction hybrid annuity model (HAM) projects and ahead of its schedule progress in majority of them. Stake sale arrangement in five out of these 12 HAM projects with Cube Highways and Infrastructure Pte Limited (Cube), low project leverage and expected completion of balance projects over next one year augur well from asset monetization perspective and strengthen financial flexibility of the DBL.

The above rating strengths, however continue to remain constrained on account of the leveraged capital structure and high working capital intensity of the operations in turn leading to moderate debt coverage indicators and liquidity position of the company.

Rating Sensitivities:

Positive Factors:

- *Significant improvement in the working capital intensity along with curtailed capex requirements leading to significant improvement in the leverage and debt coverage indicators on sustained basis*
- *Rationalization of debt levels through large sized asset monetization*

Negative Factors:

- *Higher gross current asset days exceeding 250 days on a sustained basis leading to total debt / PBILDT exceeding 3.50 times and TOL/TNW exceeding 2 times on sustained basis. While gross current asset days and total debt/PBILDT are expected to remain slightly higher than given threshold value due to Covid-19 impact, better management of working capital cycle and liquidity cushion are crucial so that the same does not continue on a sustained basis.*
- *Higher than envisaged out-go in the form of equity commitments/support to MDO project or venturing into any large sized debt funded MDO project going forward thus impacting debt coverage indicators*
- *More than 15% decline in total operating income (TOI), in coming years, impacting the debt coverage indicators.*

Detailed description of key rating drivers

Key Rating Strengths:

Largest player in the Indian road construction sector with strong project execution capability and consistent track record of receipt of performance bonus: DBL is the largest player in the Indian road construction sector in terms of scale of operations and order book size. DBL has demonstrated strong execution capability over the past few years with completion of most of its projects before time on a pan-India basis. DBL bids for projects after factoring synergetic benefits arising from clustering of projects and stretches with relatively lower hurdles of land acquisition and clearances. DBL has earned performance bonus of Rs.128.20 crore during FY20 owing to early completion of its project. Further, of the current portfolio of 12 on-going HAM projects, majority of the projects are progressing ahead of its schedule indicating strong execution capabilities.

Vast experience of the promoters and project execution team: DBL's largest shareholder, Mr. Dilip Suryavanshi and family, has been in the business of road construction for more two decades. The other promoter, Mr. Devendra Jain, is a civil engineer with a longstanding experience in project execution. DBL has also recruited experienced professionals in various fields to manage the core activities.

Strengthened order book with geographical and segmental diversification: DBL's order book continued to remain strong at Rs.26,140 crore as on December 31, 2020 indicating revenue visibility of 2.90 times FY20 TOI. Order book is fairly diversified amongst eight segments with contribution of road segment gradually reducing to 44% as on December 31, 2020 as against 64% as on March 31, 2020. Further, DBL's order book is geographically diversified across more than 14 states. DBL has also diversified into railway segment with receipt of an order for construction of double railway line in the state of Chhattisgarh.

DBL has entered into mining segment and currently has two mine developer and operator (MDO) projects -Pachwara MDO project and Siarmal MDO project. Pachwara MDO project is in consortium with VPR Mining Infrastructure Private Limited for the development and operation of Pachhwara Central Coal Block of Punjab State Power Corporation Limited (PSPCL) in the state of Jharkhand for 55 years with contract value of Rs.32,156 crore. DBL has incorporated the separate SPV for the Pachhwara project "DBL Pachhwara Coal Mines Private Limited" with 74% shareholding of DBL and 26% shareholding of VPR. Siarmal MDO project is in the state of Orrisa for 25 years with contract value of Rs.31,500 crore. As indicated by the management, the equity outlay for Pachwara project is minimal as it is an operational mine while equity outlay for Siarmal project shall be infused gradually over the period of six years. Any change in management stance impacting the leverage and debt coverage indicators of DBL shall be key rating monitorable.

During February 2021, DBL has been declared as lowest bidder in 5 HAM projects with aggregate bid project cost (BPC) of Rs.5740 crore.

Ownership of sizable equipment fleet: DBL has a very large equipment fleet as reflected by 12,833 construction equipment with gross block of Rs.3,825 crore as on March 31, 2020.

Healthy growth in scale of operations and healthy operating profitability (PBILDT margin): Total operating income (TOI) of DBL remained stagnant at Rs.9015 crore during FY20 largely on account of the extended monsoon during FY20, delay in the receipt of appointed date for few HAM projects as well as lockdown imposed due to COVID-19 during March 2020. The operating margin also remained range bound during FY20 at 17.80% owing to execution of high value projects and low reliance on subcontracting. The operations of the company were impacted due to COVID-19, however majority of the company's site commenced operations from April 20, 2020.During 9MFY21, DBL registered TOI of Rs.6308 crore as against TOI of Rs.6506 crore during 9MFY20 with minor revenue de- growth of 3% on a y-o-y basis.

However, higher fixed cost led to minor decline in the operating margin to 16.44% during 9MFY21 as against margin of 18.15% during 9MFY20. DBL's ability to maintain healthy profitability is crucial considering steep hike in the prices of cement and steel.

Updates on the stake sale transactions of the company: DBL had signed a term sheet with Chhatwal Group Trust (CGT, part of Shrem group) to divest its entire stake in its 24 SPVs (17 operational state annuity and state toll plus annuity projects, six under construction HAM projects of NHAI- five of which is now operational; and one under construction toll project of NHAI- now operational) for a consideration of around Rs.1600 crore of which DBL has received around Rs.1372 crore till FY20. DBL expects saving of around Rs.100 crore in the equity requirement of HAM projects sold to Shrem due to early completion of projects (and hence lower equity investment from Shrem to that extent). Further, the last tranche of stake sale proceeds is envisaged in Q4FY21 post receipt of pending approvals from authorities.

DBL has also entered into stake sale agreement with Cube Highways for stake sale of its five under construction HAM projects during September 2019. As per the terms of the agreement, initially DBL shall be required to infuse 51% of the total equity commitments of those projects whereas balance shall be infused by Cube post achievement of the requisite physical progress in the projects. However, DBL now plans to transfer 49% stake in these five SPVs upon achievement of commercial operations date (COD) i.e. by Q2FY22 and balance 51% after six months from COD in light of recent changes made by NHAI in the model concession agreement whereby entire stake in any operational project can be divested after six months from COD as against earlier condition of two years from COD. The balance seven HAM projects of DBL are under various stages of execution and are expected to be completed by Q3FY22. Also, as indicated by the management the stake sale deal for the balance seven projects is also under process . Low project leverage of HAM projects and strong execution capability of DBL augur well for the asset monetization perspectives and hence strengthen the financial flexibility of DBL.

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector: GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% and exit for developers after two years of project completion. After witnessing steady increase in pace of award during last three years, pace of award has declined in FY19 and FY20 due to moderation in the bidding appetite due to challenging fund raising scenario. EPC is, thus, envisaged to be the preferred mode of award till improvement in fund raising environment and bidding appetite of the developers. Nevertheless, NHAI has made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. This move is expected to resurrect investor confidence and improve bidding appetite for HAM projects. Furthermore, to ease the funding and smoothen the cash flows of the projects during construction phase due to on-going COVID-19 pandemic, NHAI has also permitted to disburse monthly grant/bills against the work billed as against the previous milestone based payments till June 2021. In addition, recent policy changes made by NHAI with respect to 100% exit for developers after six months of COD ad against two years is also positive for the industry. However, competition has increased in the sector during 9MFY21 due to relaxation of norms by NHAI and improved bidding appetite owing aforesaid initiatives.

Key Rating Weaknesses:

Leveraged capital structure and moderate debt coverage indicators:

The total debt continued to remain high owing to higher working capital intensity of operations and debt funded large equipment fleet. During 9MFY21, the company has availed NCD to the tune of Rs.300 crore majority of which were utilized to retire high cost debt and balance for minor capex and working capital requirements. Furthermore, DBL has also availed COVID-19 WCDL of Rs.234 crore to shore up its working capital requirements. The total debt to PBILDT of the company continued to remain moderate at 3.68 times during FY20 while TOL/TNW also continued to remain range bound at 2.12 times as on March 31, 2020. Overall gearing including guaranteed debt and debt of under construction HAM projects stood at 3.12 times as on March 31, 2020.

Debt levels are expected to remain high leading to marginally inferior debt coverage indicators in near term. Going forward, deleveraging of capital structure through divestment of HAM projects shall remain key rating monitorable.

Exposure to BOT projects

DBL's exposure to subsidiaries in the form of investment and loans advances has increased by around Rs.1060 crore during FY18-FY20 owing to equity commitments in on-going HAM projects. For the seventeen on-going projects (four of them are awaiting appointed date) DBL is required to invest around Rs.2094 crore of which DBL has already infused equity to the tune of Rs.1350 crore till December 31, 2020. Also, DBL has been declared as lowest bidder in five more HAM projects aggregating BPC of Rs.5740 crore during February 2021.

DBL has also extended corporate guarantee in five operational road SPVs which have self-sustainable operations. In addition, DBL has also extended corporate guarantee to 15 operational/under construction HAM projects either till COD or till receipt of first annuity or till entire tenor of the loan. Timely monetization of balance HAM assets and extent of exposure in BOT projects shall also remain key rating monitorable.

Liquidity analysis: Adequate

Working capital intensive operations: Collection period of DBL remained stable and in line with FY19 levels at 82 days during FY20. Despite execution of larger size projects, inventory level of DBL remained high in order to complete the projects ahead of schedule. The gross current asset days of the company continued to remain high at 259 days during FY20 as against 247 days during FY19. The average utilization of fund based working capital limits remained at 85% during the trailing twelve months ended September 2020. Availment of working capital demand loan under COVID-19 scheme, raising of long term debentures as well as availment of COVID-19 moratorium on interest payment of existing debt liabilities for the months of April-August 2020, has supported the liquidity of the company.

Analytical Approach: CARE has analyzed DBL's credit profile by considering its standalone financial statements along with factoring the cash flow impact of likely support to or investment in its SPVs. DBL has divested its controlling stake in its 24 operational SPVs to Shrem group, however corporate guarantee in the four operational SPVs with aggregate debt of Rs.1045 crore as on March 31, 2020 is providing credit enhancement to SPV's ratings. Nevertheless, shortfall in operational period is almost nil in all the above mentioned five operational SPVs as these comprise of four toll cum annuity projects from state authority and one toll project of NHAI with adequate debt coverage indicators. Further, Shrem group is in process of transferring these 24 operational SPVs to InvIT and hence corporate guarantee is likely to fall off for these SPVs.

Apart from the above, DBL has also extended corporate guarantee to the operational / under construction 15 HAM SPVs either till COD or till receipt of some annuities or till entire tenor of the loan. However, these corporate guarantees are not providing any credit enhancement to these SPVs in the medium term due to strong credit profile of counter party i.e. NHAI (rated CARE AAA; Stable) and comfortable debt coverage indicators. Further, strong execution capability of DBL mitigates the additional support requirement during construction phase to an extent.

Name of the SPVs to which corporate guarantee of DBL has been given by DBL	Operational status
DBL Ashoknagar Vidisha Tollways Ltd.	Operational
DBL Tikamgarh Nowgaon Tollways Ltd.	Operational
DBL Betul Sarni Tollways Ltd.	Operational
DBL Hata Dargawon Tollways Ltd.	Operational
DBL Patan Rehli Tollways Ltd.	Operational
Jalpa Devi Tollways Ltd.	Operational
DBL Mundargi Harapanahalli Tollways Ltd.	Operational
DBL Lucknow Sultanpur Highways Ltd.	Operational
DBL Kalmath Zarap Highways Ltd.	Operational
DBL Yavatmal Wardha Highways Pvt Ltd.	Operational
DBL Tuljapur Ausa Highways Ltd.	Operational
DBL Wardha Butibori Highways Pvt Ltd.	Operational
DBL Mahagaon Yavatmal Highways Pvt Ltd.	Operational
DBL Chandikhole Bhadrak Highways Pvt Ltd.	Under-construction
DBL Bangalore Nidagatta Highways Pvt Ltd	Under-construction
DBL Mangloor Highways Pvt Ltd	Under-construction
DBL Sangli Borgaon Highways Pvt Ltd	Under-construction
DBL Borgaon Watambare Highways Pvt Ltd	Under-construction
DBL Mangalwedha Solapur Highways Pvt Ltd	Under-construction
DBL Nidagatta Mysore Highways Pvt Ltd	Under-construction
Dodaballapur Hoskote Highways Private Limited	Under-construction

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology – Construction Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology- Consolidation]
[Financial Ratios – Non-Financial Sector]

About the Company
Incorporated in 2006 by Mr. Dilip Suryavanshi and family, DBL is a Bhopal-based company engaged in the construction of roads on EPC basis and a developer of roads on BOT basis/ HAM model. DBL was initially started as a proprietorship firm "Dilip Builders" in 1988-89 and subsequently converted into a public limited company. During August 2016, DBL has successfully completed initial public offer (IPO) of Rs.654 crore which included fresh issue of Rs.430 crore and balance through sale of partial stake by promoters and investor, Banyan Tree Growth Capital LLC. Promoter group held 75% stake as on December 31, 2020. BOT portfolio of DBL mainly comprised of annuity, hybrid annuity (HAM) and toll plus annuity projects.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	9162.34	9015.11
PBILDT	1648.50	1604.41
PAT	764.49	424.98
Overall gearing (times)	1.83	1.65
Interest coverage (times)	3.11	2.62

A: Audited

As per provisional published results for 9MFY21, DBL earned TOI of Rs.6307.78 crore (9MFY20: Rs.6505,82 crore) and PAT of Rs.192.01 crore (9MFY20: Rs.309.87 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Demand loan	-	-	-	-	320.00	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	-	1620.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	210.00	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	4290.00	CARE A; Stable / CARE A1
Non-fund-based-LT/ST	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE917M07142	May 29, 2020	8.75%	May 2023	100.00	CARE A; Stable
Debentures-Non Convertible Debentures	INE917M07159	August 04, 2020	8.67%	June 2023	200.00	CARE A; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Demand loan	LT	320.00	CARE A; Stable	-	1)CARE A; Stable (06-Jan-20)	1)CARE A; Stable (12-Dec-18)	1)CARE A+ (CWD) (05-Sep-17) 2)CARE A+; Stable (21-Jun-17)
2.	Fund-based - LT-Cash Credit	LT	1620.00	CARE A; Stable	-	1)CARE A; Stable (06-Jan-20)	1)CARE A; Stable (12-Dec-18)	1)CARE A+ (CWD) (05-Sep-17) 2)CARE A+; Stable (21-Jun-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	210.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (06-Jan-20)	1)CARE A; Stable / CARE A1 (12-Dec-18)	1)CARE A+ / CARE A1 (CWD) (05-Sep-17) 2)CARE A+; Stable / CARE A1 (21-Jun-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	4290.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (06-Jan-20)	1)CARE A; Stable / CARE A1 (12-Dec-18)	1)CARE A+ / CARE A1 (CWD) (05-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
								2)CARE A+; Stable / CARE A1 (21-Jun-17)
5.	Non-fund-based-LT/ST	LT/ST	-	-	-	1)CARE AAA (CE); Stable / CARE A1+ (CE) (06-Jan-20) 2)CARE AAA (SO); Stable / CARE A1+ (SO) (03-May-19)	1)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (01-Mar-19)	-
6.	Non-fund-based-LT/ST	LT/ST	-	-	-	1)Withdrawn (06-Jan-20) 2)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (03-May-19)	1)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (01-Mar-19)	-
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE A; Stable	1)CARE A; Stable (22-May-20)	-	-	-

Annexure-3: Covenants of the rated facilities- Not applicable

Annexure-4: Complexity of the instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
5.	Non-fund-based - LT/ ST-BG/LC	Simple
6.	Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no.: 022-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Maulesh Desai
Contact no.: 079- 4026 5605
Email ID: maulesh.desai@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. : 079- 4026 5656
Email ID: deepak.prajapati@careratings.com

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