

Dhruv Consultancy Services Limited (Revised)

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings 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	6.30	CARE A3 (A Three)	Reaffirmed
Total Facilities	32.30 (Rs. Thirty-Two Crore and Thirty Lakhs Only)		

*Details of instruments/facilities in Annexure I***Detailed Rationale & Key Rating Drivers**

The rating reaffirmation assigned to the bank facilities of Dhruv Consultancy Services Limited (DCSL) continue to derive strength from experienced promoters in the infrastructure consultancy services, long track record of projects executed during past, strong order book position with diversified services in the offering, healthy profitability margins and moderate financial risk profile. The ratings, however, continue to be constrained 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.

Rating sensitivities*Positive Factors*

- Increase in the scale of operation despite high competition with total operating income to attain a level of around Rs.75-80 crore on sustained basis.
- Improvement in the collection period reaching below 120 days with utilization of the working capital limits reaching below 75% on a sustained basis
- Completion of the proposed capex without any cost and time overrun

Negative factors

- 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 6% and 2% on a sustained basis

Detailed description of Key rating drivers

Experienced promoters: Mr. Pandurang Dandawate, Chairman and Non-Executive Director, has overall 35 years of experience in the industry. Ms. Tanvi Auti, currently Managing Director, has overall 10 years 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 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.

Strong order book position with diversified services in the offering: The company has strong order book position of Rs. 191.30 crore as on March 11, 2021 (vis-à-vis Rs.187.87 crore as on March 7, 2020) which is 4.05x of total sales of FY20 and 3.39x of total sales of FY19 which 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 11 projects amounting to Rs. 55.72 crore as on March 17, 2021 (over 11 projects amounting to Rs. 50.26 crore as on March 7,

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

2020) which are included in order book position. These projects are located in Maharashtra and Eastern as well as Northern India.

Healthy profitability margins: The company operates in the service industry where it has to incur employee and other administrative expenses on regular basis and sales had declined in FY20 due to COVID-19, which resulted in decline in PBILDT margin to 8.02% in FY20 (vis-à-vis 26.33% in FY19). Further PAT margin declined to 2.16% in FY20 (vis-à-vis 13.63% in FY19) in line with decline in PBILDT margin. However, PBILDT margin and PAT margins have improved in H1FY21 and stood at 17.89% and 13.12% respectively.

Moderate financial risk profile: The financial risk profile of the company stood moderate, marked by comfortable capital structure and moderate debt coverage indicators. The overall gearing of the company stood at 0.22x as on March 31, 2020 (vis-à-vis 0.30x as on March 31, 2019) on account of reduction in debt level due to scheduled repayment of unsecured loan. Total debt to GCA has deteriorated significantly and stood moderate at 5.19x during FY20 (vis-à-vis 1.48x in FY19). Interest coverage ratio has deteriorated significantly and stood moderate at 2.34x in FY20 (vis-à-vis 5.64x in FY19) on account of significant reduction in operating margin.

Key Rating Weaknesses

Modest scale of operations The total operating income of the company declined by 12.83% in FY20 and stood at Rs.49.12 crore (vis-à-vis Rs. 56.35 crore in FY19) due to non-recognition of the revenue against its major orders worth Rs.11.50 crore due to lockdown imposed on account of COVID-19 pandemic situation. Further during 11MFY21 (refers to the period April 01, 2020 to February 28, 2021) the company has achieved the total operating income of Rs.45 crore.

Working capital intensive nature of operations coupled with high collection period: The operations continue to remain working capital intensive due to majority of the funds blocked in the debtors. Working capital cycle remained stretched during FY20 due to elongation in collection period which stretched to 203 days in FY20 from 164 days during FY19). 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 which have been executing work on lower pace owing to the pandemic. Hence, the entity had to rely on external working capital borrowings leading to fully utilization in last 12-months ended on February 2021.

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, 2020, the company had 354 employees including 250 engineers. The employee costs for the company has increased significantly to Rs. 21.78 crore in FY20 from Rs.18.95 crore in FY19 mainly due to increase in number of staff and skilled labour required for carrying out highly technical assignments at different locations. Furthermore, 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, CESCO, 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 FY20 and 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: Modest

The liquidity position has moderated owing to slower realization of debtors in FY20 and H1FY21. The company has modest cash balance of Rs.0.69 crore as on March 31, 2020. The working capital limits are utilized fully during past eight months ended February 2021. However, the realization of debtors has picked up pace in the past few months. Besides, the current ratio stood comfortable at 2.86 times as on March 31, 2020 (vis-à-vis 2.51 times as on March31, 2019). The cash flows from operations

stood positive at Rs.2.41 crore in FY20 (vis-à-vis negative at Rs. 9.22 crore in FY19). The company has opted for moratorium for some loans and also availed emergency credit line provided under COVID-19 RBI relief package to support liquidity and operations.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[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)	FY19 (A)	FY20 (A)	H1FY21(Prov.)
Total operating income	56.36	49.12	23.70
PBILDT	14.84	3.94	4.24
PAT	7.68	1.06	3.11
Overall gearing (times)	0.26	0.22	0.22
Interest coverage (times)	5.64	2.34	6.73

A: Audited

Current year performance: During 11MFY21 (period refers from April 01, 2020 to February 28, 2021) DCSL has posted sales of Rs.44.48 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	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-Bills discounting/ Bills purchasing	-	-	-	5.00	CARE A3
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	20.00	CARE BBB-; Stable / CARE A3

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Bank Overdraft	-	-	-	1.30	CARE A3

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-Cash Credit	LT	6.00	CARE BBB-; Stable	1)CARE BBB-; Stable (20-Apr-20)	-	1)CARE BBB-; Stable (04-Feb-19)	-
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	5.00	CARE A3	1)CARE A3 (20-Apr-20)	-	1)CARE A3 (04-Feb-19)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	20.00	CARE BBB-; Stable / CARE A3	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	1.30	CARE A3	1)CARE A3 (20-Apr-20)	-	1)CARE A3 (04-Feb-19)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Bank Overdraft	Simple
3.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
4.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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@careratings.com for any clarifications.

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