

Dhruv Consultancy Services Limited

March 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.50 (Enhanced from 6.00)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	28.00 (Enhanced from 20.00)	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	5.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Dhruv Consultancy Services Limited (DCSL) continue derive strength from the long track record and extensive experience of the promoters in the industry, strong order book position providing medium term revenue visibility, steady operating financial performance in FY22 (refer to the period from April 1 to March 31) and 9MFY23 along with comfortable capital structure & debt coverage indicators. The ratings are, however, is tempered by the high working capital intensity of operations owing to elongated collection period as dealing with government authorities and tender-based nature of operations along with having presence in intensely competitive civil construction industry.

Rating sensitivities: Factors likely to lead to rating actions:

Positive factors

- Increase in the scale of operation to attain a GCA of above Rs.15 crore on sustained basis.
- Improvement in the collection period around 100 days or Gross current asset days at below 200 days with utilization of the working capital limits reaching below 75% on a sustained basis

Negative factors

- Deterioration in the profit margins with PBILDT and PAT margins reaching below 10% and 4% on a sustained basis
- 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.
- Elongation in operating cycle resulting into higher reliance on debt and putting pressure on the liquidity parameters as well as financial risk profile

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is expected to exhibit steady growth in its scale of operations and improvement in margins on the back of its healthy order book position and sustain comfortable financial risk profile.

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 five 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.

Strong order book position with geographically diversified: The company has strong order book position of Rs. 269 crores as on February 28, 2023 (vis-à-vis Rs. 173.19 crore as on February 21, 2022) which is 4.24x of total sales of FY21 and

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

3.58x of total sales of FY22 which is to be executed in span of two-three year depending on the nature work to be executed, providing medium-term revenue visibility to the company. These projects are located throughout 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 company operates in service industry wherein major expenditure viz. employee and other administrative expenses has been incurred towards initial stage of the projects. Thus, the PBILDT margins has declined marginally from 13.80% in FY21 to 12.40% in FY22 on account of increase in employee cost towards professional fees and consultancy charges and traffic survey etc. However, PAT margin continues to remain stable at 7.67% in FY22 with reduction in interest and depreciation cost. Further, during 9MFY23, on a year on year basis, the PBILDT margin and PAT margins have declined and stood at 13.91% and 7.81% respectively (vis-a-vis 17.22% and 11% respectively in 9MFY22) on account of expenses incurred by company over the projects however could not book the revenue which is expected to happen by end of year. Gross cash accruals stood moderate at Rs.6.40 crore in 9MFY23. Going forward, the achievement of operating profit margins and cash accruals as envisaged is crucial.

Comfortable financial risk profile: The financial risk profile of the company continues to remained same and comfortable, marked by comfortable capital structure and debt coverage indicators. The overall gearing of the company stood at 0.26x as on March 31, 2022 on account of reduction in debt level due to scheduled repayment of unsecured loan coupled with highly utilization in working capital limits as on balance sheet date. Total debt to GCA has deteriorated marginally and stood at 1.95x during FY22 (vis-à-vis 1.57x during FY21) owing to lowered cash accruals. Interest coverage has improved to 8.81x in FY22 (vis-à-vis 6.97x in FY21) on account of increase in operating profit couple with reduction in interest cost).

Key Rating Weaknesses

Modest scale of operations: The total operating income of the company increased by 18% in FY22 and stood at Rs.75.06 crore (vis-à-vis Rs. 63.39 crore in FY21). The improvement is on account of higher execution of contracts after upliftment of nationwide lockdown and restrictions in the wake of COVID-19 pandemic and also government initiative more towards infrastructure development. The modest scale of operations in a competitive industry limits the bidding capability, pricing power and benefits of economies of scale. Further during 9MFY23(refers to the period April 01, 2022 to December 31, 2022) the company has achieved the total operating income of Rs.60.54 crore (around 74% of the projected total income for FY23).

Working capital intensive nature of operations coupled with high collection period: The operations of the company are working capital intensive due to tender based and long-term nature of contracts. Receivables (including retention money) stood at 183 days and gross current assets days though improved from 423 days in FY21 to 350 days in FY22. Despite improvement in Gross current asset days, 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 2023. Going forward, the company's Gross current days is expected to improve which is a key rating monitorable.

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, 2022, the company had 320 employees including ~200 engineers. 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 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. During FY22 the geographical coverage of the company has widened and have covered northern area like Jharkhand, Odisha, Manipur, Bihar etc. However, around 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

The liquidity position of the company remained adequate marked by sufficient cushion in accruals vis-à-vis moderate repayment obligations of term loans. As on December 31, 2022, unencumbered cash/bank balance stood at 0.37 crores. Being into consultancy services for construction industry is inherently high working capital intensive primarily due to funding requirement towards the security deposits, margin money for the non-fund-based facilities, receivables. However, the same has been funded through internal accruals, working capital bank borrowings and mobilization advances. During 9MFY23, the company has received equity infusion of around Rs. 6.49 crore. The average utilisation stood at 80% in past 12 months ended on Jan 2023 after availing the enhancement of bank facilities from PNB Bank. Further, the current ratio and quick ratio stood comfortable at 1.99 times as on March 31, 2022. However, the net cash flow from operating activities stood negative in FY22.

Applicable criteria:

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

About the Company and Industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	63.39	75.06	60.54
PBILDT	8.75	9.31	8.42
PAT	4.83	5.76	4.73
Overall gearing (times)	0.26	0.34	0.25
Interest coverage (times)	6.97	8.81	7.32

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

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

Lender details: Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.50	CARE BBB-; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	5.00	CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	28.00	CARE BBB-; Stable / 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 (₹ 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	Fund-based - LT-Cash Credit	LT	6.50	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Apr-22)	1)CARE BBB-; Stable (05-Apr-21)	1)CARE BBB-; Stable (20-Apr-20)	-
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	5.00	CARE A3	1)CARE A3 (06-Apr-22)	1)CARE A3 (05-Apr-21)	1)CARE A3 (20-Apr-20)	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	28.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (06-Apr-22)	1)CARE BBB-; Stable / CARE A3 (05-Apr-21)	1)CARE BBB-; Stable / CARE A3 (20-Apr-20)	-
4	Fund-based - ST-Bank Overdraft	ST	-	-	1)Withdrawn (06-Apr-22)	1)CARE A3 (05-Apr-21)	1)CARE A3 (20-Apr-20)	-

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**Annexure 4: 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-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo 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.

Contact us

Media Contact Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Name: Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Analytical Contacts Name: Sudarshan Shreenivas Director CARE Ratings Limited Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in Name: Vikash Agarwal Associate Director CARE Ratings Limited Phone: 022-68374427 E-mail: vikash.agarwal@careedge.in Name: Suchita Narkar Analyst CARE Ratings Limited Phone: 022-6754 3461 E-mail: Suchita.shirgaonkar@careedge.in
---	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**