Deepak Builders & Engineers India Limited

April 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	40.71 (Enhanced from 38.00)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	424.29 (Reduced from 427.00)	CARE BBB-; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Deepak Builders & Engineers India Limited (DBEIL) continues to draw comfort from experienced promoters, established track record with execution capabilities in diversified segments of construction projects, growing scale of operations, moderate profitability margins, geographically diversified revenue profile, escalation clause in all the contracts, reputed client base and modest unexecuted order book position.

The ratings, however are constrained by leveraged capital structure, working capital intensive nature of operations, business risk associated with tender -based-orders and intense competition in the construction sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations above Rs. 500 crore over the medium term on sustained basis.
- Improvement in the PBILDT margin increasing to 12% and PAT margin over 5% on a sustained basis
- Improvement in the capital structure as marked by overall gearing ratio below 1.00x on sustained basis

Negative factors

- Deterioration in the coverage indicators as marked by interest coverage ratio below 2x on sustained basis
- Decrease in scale of operations below Rs. 400 crore over the medium term on sustained basis
- Elongation in working capital cycle to 100 days

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects that entity is likely to sustain its stable operating performance as reflected by scale of operations and moderate profitability margins along with strong order book position providing fair medium term revenue visibility.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

The management has an experience of almost 3 decades in civil construction. The company is promoted by Mr. Deepak Kumar Singal. Mr. Singal has an experience of more than 35 years in the construction sector. The company has a team of qualified engineers with expertise in civil construction.

Established track record with execution capabilities in diversified segments of construction projects

The company executes projects like Administrative Complexes, Hospitals, Residential Complexes, Judicial Court Complexes, Institutes, Sports Stadium, Memorial & Heritage Buildings, Road Over Bridges (ROB), Flyovers, Bridges etc. This leads to a diversified projects profile for the company. The long standing experience of the promoters has enabled the company to establish relations with its customers resulting in repetitive orders/tenders from various government departments. The

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

company is on the approved list of Contractors with Punjab Government, Department of Punjab Public Works Deptt., Punjab Housefed, Punjab Mandi Board, Municipal Corporation, Ludhiana and local bodies in Punjab.

Growing scale of operations

The scale of operations of the company stood moderate though improved as marked by total operating income and gross cash accruals of Rs. 416.57 crore (PY:351.05 cr) and Rs. 21.66 crore (PY: 21.66 cr), respectively, during FY22 and FY21. The improvement was on account of comparatively higher execution of orders in hand. The tangible net-worth remained moderate at Rs.84 crore as on March 31, 2022. The moderate scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Further, the company has achieved total operating income of Rs. 493.76 crore in 12MFY23. The company has strong order book of Rs.1649 cr as on Dec 31, 2022 (Rs.662.80 Cr. as on March 31, 2022) basis which TOI can be expected to continue this growing trend in coming FYs also.

Moderate profitability margins

The profitability margins i.e. PBILDT margins stood moderate at 10.27% in FY22 (PY: 9.69%). The improvement was on account of executing higher margin contracts as well as presence of escalation clause in majority of the contracts due to which the company was able to pass on the incremental raw material cost to the customers. Also the company benefit from its own plant and machinery, thereby reducing the rental expenses. Also, in 9MFY23, PBILDT margin remained in line with the previous year and stood 9.65%. Further, PAT margins of the company stood in line with previous year at 4.30% in FY22 (PY: 3.84%). In 9MFY23, PAT margin stood at 4.35%.

Geographically diversified revenue profile

The order book is geographically concentrated with majority of the orders in Punjab and Haryana. The current unexecuted order book of the group includes civil construction work in Punjab (~40% of the value of the total unexecuted contracts) and Haryana (~50%). However, in the long run the company needs to diversify its order book to reduce the dependence on any particular state.

Escalation clause in all the contracts

The company's raw material consists mainly of steel and cement having 100% escalation clause which are procured from SAIL (directly), TATA Steel (through distributors), Ambuja cement (directly) and Ultratech cement (directly). The company has inbuilt price escalation clauses in all its contracts to insulate the company from any adverse fluctuation in raw material prices. This enables the company to pass on the increase in raw material prices to its customers. Ability of the company to pass on increased price burden to the customers in a timely manner and maintain profitability margins is critical from the credit perspective.

Reputed client base and modest order book position providing fair medium term revenue visibility

The company has a healthy unexecuted order book position of Rs.1649 Cr. as on Dec 31, 2022 (Rs.662.80 Cr. as on March 31, 2022) representing 3.34x of the total operating income of FY23 and gives a medium- term revenue visibility (major orders to be executed by FY24 and FY25).

Over the years, the company has built strong relationship with renowned clients such as HSCC India limited, Public Work Department (Punjab), National Projects Construction Corporation Limited, Wapcos Limited, Indian Oil Corporation Limited(IOCL) and in light of the satisfactory work, it has managed to get repeat orders from its clients.

Key weaknesses

Leveraged capital structure

The overall gearing stood leveraged and stood in line with the previous year at 1.11x as on March 31, 2022 (PY: 1.09x). Further, the coverage indicators marked by interest coverage and total debt to GCA stood low as on March 31, 2022 at 2.59x (PY:2.45x) and 5.51x (PY: 5.96x) respectively. Slight improvement was due to comparatively high PBILDT levels and gross cash accruals of the company. Further, the overall gearing as well as the coverage indicators stood in line with the previous level wherein overall gearing stood 1.33x and the coverage indicators marked by interest coverage and total debt to GCA stood at 3.08x and 7.00x respectively as on December 31, 2022.

Working capital intensive nature of operations

The operating cycle of the group stood at an elongated level of 63 days, as on March 31, 2022 (PY: 81 days). The orders are from government agencies which releases payments within 2 months from the date of billing. Also, the collection period includes retention money held with the client to the tune of Rs.9.14 crore as on March 31, 2022 out of the total debtors of

Rs.100.75 crore as on March 31, 2022. This led to average collection period of 88 days, as on March 31, 2022. On the supplier side, the company makes payment within a month or cash payments for discounts depending upon the liquidity position. Otherwise, the company also receives a credit period of upto 90 days.
The average maximum utilization of the fund-based limits remains at a moderately high level of ~93% for the last 6 months ended December 2022.

Business risk associated with tender -based-orders
The company is exposed to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, any changes in the government policy or government spending on projects are likely to affect the revenues of the company.

Intense competition in the construction sector
The primary business of DBEIL is civil construction, which is highly fragmented and competitive in nature with large number of players leading to aggressive biddings. The sector is also marred by various other challenges on account of economic slowdown, regulatory changes and policy paralysis which has adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book.
Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Liquidity: Adequate
The liquidity profile of the company is marked by current ratio of 1.76x as on March 31, 2022. The average maximum utilization of the fund-based limits remains at a moderately high level of ~93% for the last 6 months ended December 2022. The company has moderate cushion in accruals of Rs.29.48 crore in FY23 vis-à-vis repayment obligations of Rs. 21.66 crores and moderate cash balance of Rs.1.77 crore as on Dec 31, 2022.

Applicable criteria

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

About the company and industry

Industry Classification

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

Deepak Builders & Engineers India Limited (DBEIL) was initially incorporated in 1987 as a partnership firm by the name of 'Deepak Builders' and has been into civil construction for the past three decades. The company is promoted by Mr. Deepak Kumar Singal and Ms. Sunita Singal. The company executes projects like Administrative Complexes, Hospitals, Residential Complexes, Judicial Court Complexes, Institutes, Sports Stadium, railway stations, Memorial & Heritage Buildings, Road Over Bridges (ROB), Flyovers, Bridges etc. The major contracts are allotted to it by government agencies including HSCC India Limited, National Project Construction Corporation Limited (NPCC), Wapcos Limited and Indian Oil Corporation Limited (IOCL).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	12MFY23
Total operating income	351.05	416.57	493.76
PBILDT	34.02	42.78	NA
PAT	13.50	17.90	NA
Overall gearing (times)	1.52	1.42	NA
Interest coverage (times)	2.45	2.59	NA

A: Audited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Infomerics has conducted the review on the basis of best available information and classified Deepak Builders & Engineers India Limited as "Not Co-operating" vide its press release dated March 13, 2023

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

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		-	-	-	40.71	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	424.29	CARE BBB-; Stable / 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 2023-2024	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
1	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (12-Apr-21) 2)Withdrawn (12-Apr-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (18-Feb-21)

2	Non-fund-based - LT-BG/LC	LT	-	-	-	-	1)Withdrawn (12-Apr-21) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (12-Apr-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (18-Feb-21)
3	Fund-based - LT-Cash Credit	LT	40.71	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Mar-23)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	424.29	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (21-Mar-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

Note on the 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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About us:
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