Deepak Builders & Engineers India Limited (Revised)

October 09, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	40.71	CARE BB+; Stable	Revised from CARE BBB-; Stable
Long Term / Short Term Bank Facilities	424.29	CARE BB+; Stable / CARE A4+	Revised from CARE BBB-; Stable / CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Deepak Builders & Engineers India Limited (DBEIL) have been revised on account of high inventory level leading to working capital intensive nature of operations, leveraged capital structure, high repayment obligation during FY24 reflecting stretched liquidity position, weak Debt Service Coverage Ratio, geographical as well as order book concentration, and intense competition in the construction sector.

The ratings, however, 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, reputed client base and modest unexecuted order book position.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the PBILDT margin increasing to 12% and PAT margin over 7% on a sustained basis
- Improvement in working capital cycle as reflected by inventory holding period to below 80 days on sustained basis

Negative factors

- Deterioration in the coverage indicators as marked by interest coverage ratio below 2x on sustained basis
- Any further elevation in working capital cycle of more than 115 days impacting its liquidity position

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 providing fair medium- term revenue visibility.

Detailed description of the key rating drivers:

Key weaknesses

Leveraged capital structure

The debt profile of the company consists of term loan, mobilisation advances and working capital borrowings. The overall gearing stood leveraged at 1.99x as on March 31, 2023 (PY: 1.42x) on account of increase in the term loan taken for machinery as well as mobilisation advances taken of Rs.111.96 cr (PY: Rs.39.59 cr) majorly against contracts awarded to the company during FY23.

Further, the coverage indicators marked by interest coverage and total debt to GCA as on March 31, 2023 stood at 2.76x (PY:2.59x) and 7.77x (PY: 5.51x) respectively. Slight deterioration was due to comparatively high debt levels of the company. The debt level has increased primarily to fund the elevated inventory and receivable position as on March 31, 2023.

Working capital intensive nature of operations

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

The operating cycle of the group stood at an elongated level of 112 days, as on March 31, 2023 (PY: 85 days) on account of high inventory level. The inventory level stood Rs. 169.99 crores as on March 31, 2023 (PY: Rs.69.11 cr). The company has purchased ~4000 tonne steel for railway stations project located in Panipat and Faridabad during FY23 costing to ~40 crores steel purchase during FY23 itself. The company purchases steel in bulk to pile up the inventory owing to high volatility in steel prices. Also, the company is having MOU with Steel Authority of India Limited (SAIL) and Jindal Steels wherein the company has to procure steel of around 15000 to 30000 tonne per month in order to get cash discounts which led to high level of inventory. Further, the inventory level stood Rs.138.29 crores as on September 30, 2023. The higher inventory level exposes the company to raw material price volatility and also higher interest cost as majority of the inventory is funded through external borrowing.
Further, the orders are from government agencies which releases payments within 2-3 months from the date of billing. Also, the collection period includes retention money held with the client to the tune of Rs.43 crore as on March 31, 2023 out of the total debtors of Rs.140.54 crore as on March 31, 2023. This led to average collection period of 97 days, as on March 31, 2023. 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 up to 90 days. The average utilization of the fund-based limits remains at a high level of ~80% for the last 10 months ended June 30, 2023.

Weak Debt Service Coverage Ratio

The financial risk profile of company is characterized by high debt position. The term debt has been increasing over the period of time from Rs.37.98 cr at the end of FY21 to Rs.64.43cr at the end of FY23. The debt level has increased primarily to fund the elevated inventory and receivable position as on March 31, 2023. Further, the debt taken to fund the majority of its inventory constitutes high cost of borrowing of ~11% to 12%.
The company is expecting gross cash accruals of Rs. 46.30 crores for FY24 against high gross loan repayments of Rs. 32.75 crores reflecting weak Debt Service Coverage Ratio of 1.26 times.

Geographical as well as order book concentration

The outstanding order book of DBEIL as on June 30, 2023 is concentrated with top 3 projects constituting around 70%, with scope of work related to railway station and oil refinery, in the single state i.e. Punjab and Haryana which exposes the company to geographical concentration risk. The current unexecuted order book of the company includes civil construction work in Punjab (~45% 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.
The order book also contains a few slow-moving projects, timely execution of which is critical from credit rating perspective.

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.

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 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.

Moderate 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. 510.98 crore (PY:416.57 cr) and Rs. 26.86 crore (PY: 21.66 cr), respectively, during FY23 and FY22. The improvement was on account of comparatively higher execution of orders in hand. Further, the company has achieved sales of ~Rs.258 crores as on Sep 27, 2023. The tangible net-worth remained moderate at Rs.104.81 crore as on March 31, 2023. The moderate scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. The company has strong order book of Rs.1463 cr as on June 30, 2023 (Rs.1649 Cr. as on Dec 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 and in line with the previous year at 10.03% in FY23 (PY: 10.27%). 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. Further, PAT margins of the company also stood in line with previous year at 4.17% in FY23 (PY: 4.30%).

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.1463 Cr. as on June 30, 2023 (Rs.1649 Cr. as on Dec 31, 2022) representing 2.86x 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.

Liquidity: Stretched

The liquidity profile of the company is stretched as marked by high repayment obligations of Rs.32.75 crores in FY24 as against gross cash accruals of Rs. 46.30 crores reflecting thin Debt Service Coverage ratio (DSCR) of 1.26 times. Also the working capital intensive operations along with regular requirement for capital expenditure further stretch the DSCR. Further, the cash and bank balance stood low at Rs.0.66 cr as on June 30, 2023. The average utilization of the fund-based limits remains at a moderately high level of ~80% for the last 10 months ended June 30, 2023.

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, 2022 (A)	March 31, 2023 (Provisional)	H1FY24 (Provisional)
Total operating income	416.57	510.98	258.18
PBILDT	42.78	51.25	27.32
PAT	17.90	21.32	11.72
Overall gearing (times)	1.42	1.99	1.62
Interest coverage (times)	2.59	2.76	2.84

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: ICRA, CRISIL and Infomerics have 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 May 30, 2023, April 24, 2023 and March 13, 2023 respectively.

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 BB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	424.29	CARE BB+; Stable / CARE A4+

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)Withdrawn (12-Apr-21) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (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 BB+; Stable	1)CARE BBB-; Stable (17-Apr-23)	1)CARE BBB-; Stable (21-Mar-23)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	424.29	CARE BB+; Stable / CARE A4+	1)CARE BBB-; Stable / CARE A3 (17-Apr-23)	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:

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.

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