

## Dineshchandra R. Agrawal Infracon Private Limited

March 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	40.00	CARE AA; Stable	Revised from CARE AA-; Stable
Long-term/short-term bank facilities	3,921.82 (Enhanced from 2,921.82)	CARE AA; Stable/ CARE A1+	Revised from CARE AA-; Stable/CARE A1+
Short-term bank facilities	60.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised long-term ratings while reaffirming short-term ratings of bank facilities of Dineshchandra R. Agrawal Infracon Private Limited (DRAIPL). The revision considers DRAIPL's improved segmental diversification in order book position along with significant financial flexibility from a portfolio of debt-light operational Hybrid Annuity Model (HAM) projects. Receiving new orders across segments and geographies has led to a healthy and diversified order book position of about ₹20,000 crore as of December 31, 2023.

The pool of operational HAM assets has also increased to five, all of them completed ahead of schedule during the last 2 years, and another two HAM assets are slated for completion in FY25. The operational pool of assets has comparatively low debt levels, thus generating a healthy cash surplus at the special purpose vehicle (SPV) level, with undisbursed debt of about ₹500 crore in HAM SPVs imparting DRAIPL significant financial flexibility. The rating has been revised factoring the steady growth in DRAIPL's scale of operations with a compounded annual growth rate (CAGR) of 26% over the last five years, leading to a total operating income (TOI) of ₹5,701 crore in FY23 (FY refers to April 1 to March 31) and ₹4,220 crore in 9MFY24.

Ratings remain underpinned by DRAIPL's comfortable financial risk profile, marked by a low leverage and robust debt coverage indicators with efficient management of its working capital requirements, despite being present in a working capital-intensive industry. The liquidity position is strong, marked by a sizeable liquid cash and bank balance with unutilised bank lines in DRAIPL and its operational SPVs.

Ratings continue deriving strength from its established track record of more than five decades in the construction sector with demonstrated execution capability, and the government's thrust on infrastructure development.

However, ratings are tempered by DRAIPL's relatively moderate profitability as compared to its peers, which is further susceptible to volatile commodity prices and inherent project execution risk, especially given that majority orders are at a nascent stage in newer segments and the competitive road construction industry also constrain ratings.

Going forward, scaling up operations through timely completion of ongoing projects in newer segments of station redevelopment and underground metro rail construction shall be key rating monitorable. CARE Ratings also understands that DRAIPL has also planned to foray into overseas markets and hence pace of addition of new orders in different geographies and its impact on working capital intensity and leverage shall also be key rating monitorable.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant improvement in business risk profile and growth in its scale of operations while improving PBILDT margins to above 15% and maintaining low leverage on a sustained basis.

#### Negative factors

- Significant delays in executing projects, thus declining its TOI to below ₹4,000 crore or a dip in the PBILDT margin to below 8% on a sustained basis.
- Deteriorating leverage, with net adjusted debt/PBILDT exceeding unity on a sustained basis.
- Aggressively adding build-operate-transfer (BOT) projects, resulting in high exposure of its investments and advances against net worth on a sustained basis.
- Increasing working capital intensity, marked by increasing gross current asset days over 150 days on a sustained basis.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Analytical approach

Standalone, factoring in the equity commitment in SPVs and corporate guarantee / shortfall undertakings provided to DRA Narmada Busport Private Limited, DRA Dharmapuri Infra Private Limited and Dineshchandra Tollways Limited.

## Outlook: Stable

CARE Ratings expects the outlook to be steady, supported by strong financial flexibility from a pool of operational HAM SPVs, and sustaining a comfortable business risk profile on the back of steady execution of the outstanding order book position.

## Detailed description of key rating drivers

### Key strengths

#### Increasing the pool of operational HAM assets strengthening financial flexibility

DRAIPL has a healthy portfolio of five HAM road assets as of February 29, 2024. All HAM projects have been completed ahead of schedule, resulting in bonus annuity receipts. The pool consists of four HAM projects of the National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') and one state HAM asset of Rajasthan. These projects have significantly low debt levels, marked by peak debt/Annuity of 3.7x for all projects with a balance concession life of more than 10 years, rendering cashflow upstreaming visibility either through annual surplus, top-up loan, or stake sale. The operational portfolio is expected to increase further with the slated completion of 2 HAM projects during FY25. There is an undisbursed loan to the tune of ~Rs.500 crore available under these SPVs, which provides significant financial flexibility to DRAIPL.

#### Healthy revenue visibility along with segmentally and geographically diverse order book

Since the last review, the order book has significantly increased from ₹11,714 crore as of September 30, 2022, to about ₹20,000 crore as on December 31, 2023. The order book-to-TOI ratio stands at 3.45x, providing strong revenue visibility in the medium term. The order book is segmentally well diversified, with roads and bridges contributing 44% of its outstanding order book as on December 31, 2023, station redevelopment at 17%, High-speed rail at 11%, water and sewage at 9%, Urban transportation at 5% and other segments contributing the balance. The order book is further geographically diversified across more than 20 states, with Gujarat contributing about 20% of the order book while the balance is spread across Jharkhand, and Delhi, among others.

The clientele includes government departments such as the Ministry of Road Transport and Highways (MoRTH), NHAI, the Airports Authority of India (AAI; rated 'CARE AAA; Stable'), the National High-Speed Rail Corporation (NHSRC), the Indian Railways, and few other state authorities, translating into limited counterparty risk.

#### Healthy growing scale of operations

DRAIPL reported a y-o-y growth of 48% in the scale of operations with a TOI of ₹5,701 crore in FY23 (FY22: ₹3,846 crore) on the back of executing sizeable works in its engineering, procurement, and construction (EPC) projects. The company's TOI in last five years ended March 31, 2023, grew at a CAGR of 26%. DRAIPL reported a TOI of ₹4,220 crore in 9MFY24 (9MFY23: ₹3,802 crore). Given the healthy order book position, CARE Ratings expects DRAIPL's revenue to register a healthy year-on-year growth.

#### Comfortable capital structure with robust debt coverage indicators

DRAIPL has a conservative external debt policy, marked by its low total debt and low utilisation of its fund-based working capital limits. The company's capital structure is comfortable, marked by an overall gearing (on a net debt basis) (including mobilisation advances) of 0.66x as of March 31, 2023 (0.66x as of March 31, 2022). As of March 31, 2023, total debt (TD) was slightly higher due to interest-free mobilisation advances availed towards orders in hand. DRAIPL has also extended a CG and a letter of undertaking for debt availed by two of its SPVs.

Overall gearing on a net debt basis considering such guaranteed debt and excluding interest-free mobilisation advances remains NIL as of March 31, 2023. DRAIPL also has a policy for conserving cash generated from the business over the years, reflected in the free cash and cash equivalents of ₹614 crore as on March 31, 2023. Debt coverage indicators remained strong, marked by interest coverage of more than 22x in FY23 and nil adjusted net debt<sup>2</sup>/PBILDT. CARE Ratings expects adjusted net debt/PBILDT is expected to be below unity in the medium term.

<sup>2</sup> Adjusted net debt includes guaranteed debt but excludes interest-free mobilisation advances.

**Lean operating cycle**

DRAIPL operates in the working capital-intensive construction industry with the funding required for security deposits, retention amount, and margin money towards contracts and non-fund-based facilities, apart from unbilled revenue owing to pending work certification. However, the company efficiently manages its working capital requirements, marked by an average gross current asset day of 84 days and a lean operating cycle of about 3 days for the last five years ended March 31, 2023. DRAIPL mainly relies on its internal accruals for supporting equity commitments, working capital requirements and acquiring fixed assets, leading to lower indebtedness.

**Experienced promoters and established track record of project execution**

DRAIPL, under the able leadership of Dineshchandra Agrawal, has an established operational track record of more than five decades in the construction segment and has executed multiple large-scale and prestigious projects. He is assisted by his sons, Hardik Agrawal and Sumit Agrawal. Jagdishchandra Agrawal, brother of Dineshchandra Agrawal, and his son, Ankit Agrawal, are also actively involved in the company's overall operations. DRAIPL has achieved commercial operations date (COD) for five of its HAM projects well before the scheduled commercial operations date (SCOD), without availing substantial debt, thus substantiating its strong execution capability.

**Thrust of government on infrastructure development**

Continued government thrust on the road construction sector augurs well for DRAIPL's growth prospects in the medium term. Under the government's National Infrastructure Pipeline (NIP), a substantial outlay on road construction – about 18% of the overall ₹111 trillion plan – is expected to provide the necessary impetus to companies operating in this segment. Furthermore, a proposed Urban Infrastructure Development Fund in the 2023-24 budget aims to bolster urban infrastructure in tier-2 and tier-3 cities. Railway station redevelopment projects show promise, and post-COVID-19, there's heightened focus on healthcare infrastructure. Thus, increased focus of GOI on overall Infrastructure development is expected to benefit players like DRAIPL given its strong execution track record.

**Key weaknesses****Relatively moderate profitability**

DRAIPL's operating profitability over the years has remained moderate as compared to its peers. In FY23, the company reported a PBILDT margin of 8.76% as compared to 9.13% in FY22. The managerial remuneration paid in FY22 and FY23 was high, at about ₹49 crore and ₹57 crore, respectively. The PBILDT margin, adjusting such remuneration, stood at 9.76% in FY23 (FY22: 10.41%). DRAIPL's ability to improve profitability is crucial from the credit perspective. In 9MFY24, the company reported a PBILDT margin of 8.96% as compared to 9.87% in 9MFY23. DRAIPL is planning to foray into new segments such as solar, oil and gas, tunnelling, and airport infrastructure, among others, where margins are a bit moderate. It is also planning to expand to new geographies outside India, such as Mauritius, Dubai, and Australia, where it will be exposed to inherent execution and geopolitical risks. These factors will be crucial from the credit perspective.

**Challenges involved in scaling up resources, especially in newer segments and geographies**

DRAIPL's 60% of the order book as of December 31, 2023, is in a nascent stage marked by less than 10% progress in execution. It is on account of the awarding of these projects in the last six to nine months and the time required for design approval etc. Hence, DRAIPL is exposed to challenges involved in scaling up resources in newer segments while managing working capital requirements. Furthermore, the company has seven under-construction HAM projects in its portfolio, which will entail equity commitments totalling ₹939 crore, of which DRAIPL has already infused ₹428 crore until December 31, 2023. However, the company has recruited a team of professionals to take care of execution and strong liquidity to meet equity commitments. Going forward, timely completion of large projects in different segments shall be crucial.

Furthermore, DRAIPL is looking to foray into new segments such as Solar, Oil & Gas, tunnelling, etc. and new geographies outside India i.e. countries like Mauritius, Dubai, and Australia where it will be exposed to inherent execution and geopolitical risks. Going forward, the extent of segmental and geographical diversification and its impact on working capital intensity and leverage shall be key rating monitorable.

**Inherent challenges associated with the construction industry**

The disproportionate hike in commodity prices as compared to inflation indexation, aggressive bidding, delay in achieving financial closure or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on margins of entities in the industry.

**Liquidity:** Strong

DRAIPL has strong liquidity, characterised by sufficient cash accruals as against repayment obligations with unutilised working capital limits and free cash available. Gross loan repayments are in the range of ₹40-45 crore against gross cash accruals (GCA) of ₹395 crore in FY23. As of December 31, 2023, the company had free cash and cash equivalents of ₹422 crore. Fund-based limits were utilised to the extent of only 11% for the trailing 12 months ended December 31, 2023, underscoring its strong liquidity position.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

**Applicable criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

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[Construction](#)

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**About the company and industry****Industry classification**

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

Founded in 1972 as a partnership firm by Dineshchandra R Agrawal, DRAIPL was converted to a private limited company in November 2003. It is engaged in constructing roads, bridges, airports, smart city projects, railways, and building and drainage systems across the country. The company has a portfolio of five operational HAM, seven under-construction HAM projects, one EPPC project, and two bus terminal development (real estate) projects as of March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	3,846	5,701	4,220
PBILDT	351	499	378
PAT	236	344	210
Overall gearing (times)*	0.66	0.66	0.70
Interest coverage (times)	21.35	22.45	15.01

\*Including mobilisation advances; A: Audited; UA: Unaudited. Note: These are the latest financial results available.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer to Annexure-2

**Covenants of rated instruments/facilities:** Annexure-3

**Complexity level of instruments rated:** 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		-	-	-	40.00	CARE AA; Stable
Fund-based-LT/ST		-	-	-	80.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ST-Bank guarantee		-	-	-	3841.82	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	60.00	CARE A1+

**Annexure-2: Rating history for 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	Commercial paper- Commercial paper (carved out)	ST	-	-	-	1)Withdrawn (06-Feb-23) 2)CARE A1+ (19-May-22)	1)CARE A1+ (29-Mar-22)	-
2	Fund-based-LT/ST	LT/ST	80.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Feb-23) 2)CARE AA-; Stable / CARE A1+ (19-May-22)	-	-
3	Fund-based - LT-Cash credit	LT	40.00	CARE AA; Stable	-	1)CARE AA-; Stable (06-Feb-23) 2)CARE AA-; Stable (19-May-22)	-	-
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	3841.82	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Feb-23) 2)CARE AA-; Stable / CARE A1+ (19-May-22)	-	-
5	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A1+	-	1)CARE A1+ (06-Feb-23) 2)CARE A1+ (19-May-22)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/short term.

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities**

Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based-LT/ST	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of 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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