

Denta Water and Infra Solutions Limited

April 02,2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.50	CARE BBB; Stable	Assigned
Long Term / Short Term Bank Facilities	60.50	CARE BBB; Stable / CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Denta Water and Infra Solutions Limited (DWISL) derives strength from experienced promoters with decent track record in execution of Engineering, Procurement and Construction (EPC) business, strong project execution ability of water supply projects (WSPs) on an EPC basis, low counterparty credit risk, strong order book yielding high revenue visibility in the near to medium term. The ratings also take cognisance of DWISL's profitability remain high in terms of levels and margins reported in last three years ended FY23 (FY refers to the period from April 01 to March 31) and 9MFY24 which are above industry benchmark, healthy capital structure and debt coverage indicators, and adequate liquidity against nil long-term debt.

The above rating strengths are, however, partially offset by moderate scale of operations albeit growth witnessed year-on-year, segmental and geographical concentration, presence in a highly fragmented and competitive tender-driven nature of the construction industry, and the susceptibility of its profitability to fluctuations in input material prices.

Further, the ratings also factor in DWISL's proposal to raise funds amounting to ₹210 crore through Initial Public Offer (IPO) which is likely to reduce the company's reliance on external debt towards its working capital requirements given the increasing scale of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its scale of operations above Rs.300 crore on a sustained basis while maintaining its PBILDT margin above 30% on a sustained basis.
- Geographical diversification of its order book
- Successful issuance of IPO which will aid the additional requirement of working capital for DWISL.

Negative factors

- Dip in PBILDT margins below 25% on a sustained basis
- Increase in working capital intensity thereby adversely affecting TOL/TNW above 1.00 times

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the satisfactory order book position of DWISL as on February 29,2024, which is expected to aid the growth in scale of operations and support its profitability.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with established track record of operation: DWISL was founded on Nov 17,2016, by Smt. Sowbhagyamma and Dr. Shri. Rajashekar Sujith, with an aim to improve core infrastructure for the common man's betterment and mission to create a positive societal impact. The company is now headed by Mr. Manish Shetty (MD) an Engineer by education and has an experience of more than 9 Years in the industry who looks after the overall operations of DWISL, Mr. Manjunath Gundappa (Director) having experience of more than two decades in field of construction and consultancy. R. Narendra Babu is the Independent Director of DWISL a bachelors' degree holder in engineering having experience in the field of construction, groundwater recharging, lift irrigation and water management. Prior to joining DWISL, he was working as Executive Engineer at the Minor Irrigation Division, Government of Karnataka.

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

Moreover, the promoters are supported by team of managerial personnel and experienced professionals in project planning, execution and other day-to-day business operations.

Execution capability in the segment water supply projects (WSPs) on an Engineering, Procurement and Construction (EPC) basis: DWISL is present in the industry since 2016. It has an established track record of operations in the water supply management projects along with EPC and O&Ms services and has long-standing relationship with various government authorities like the Government of Karnataka (GOK), The Bangalore Water Supply and Sewerage Board (BWSSB), various divisions of Indian Railways, and urban local bodies from whom it gets majority of its contract work. DWISL is getting benefitted from the experience and relationship developed by its promoters as evinced by its position in the highly competitive industry.

Satisfactory orderbook position providing moderate revenue visibility: DWISL had an outstanding order book position of Rs.691.41 crore as on February 29, 2024 as against Rs. 819.18 crore as on March 31, 2023, translating into revenue visibility of 3.97x of FY23 TOI providing revenue visibility for medium to long term. DWISL has added orders worth ~Rs.808.79 crore during full year FY23 out of which few were executed and completed in the same year and Rs. 8.26 crore in 11MFY24. Around 47% of the orders in the unexecuted orderbook pertains to orders awarded under Jal Jeevan Mission which is being funded by central and state government in equal proportion.

Further, around 92% of the orders of company are pertaining to water management and balance 8% pertains to railways, irrigation, roadworks, and other miscellaneous works.

High profit levels and margins over the span of last three years: PBILDT margin of the company remained fluctuating, and range bound between 38%-45% during past 3 years ended FY23. The profitability margins remained above the industry benchmark as compared to other players given the concentration of DWISL in water management and revitalization projects where once the pump houses are constructed, it does not require any further civil work, the company commands higher margins given the design capabilities it has which is resulting in better operational efficiencies and no other costs is to be incurred apart from annual maintenance thus earning better margins. The PBILDT margin has moderated during FY23 by 479 bps to 38.33% in FY23 from 43.12% in FY22. Consequently, PAT margin also moderated by 392 bps to 28.64% (PY 32.18%) in FY22 on the back of increase in interest expenses clubbed with depreciation cost.

Healthy capital structure and debt coverage indicators: The capital structure of the company remained comfortable marked by overall gearing of below unity over a period of last 3 years ended FY23, with overall gearing of 0.01x as on March 31, 2023 (FY22: 0.00) which slightly increased. The debt coverage metrics of the company remained healthy marked by PBILDT interest coverage of 709.77x and TD/GCA of 0.02x as on March 31, 2023. Further, with increase in scale of operation the working capital requirement is expected to increase hence, with receipt of IPO proceeds in Q1FY25 the capital structure is expected to improve significantly going forward.

DWISL has a non-fund-based exposure in the form of outstanding Bank guarantee (~Rs.80 crore at Dec 23) against which it has margin money deposit of around Rs.0.40 crore. This is expected to further increase with the growth in scale of operations.

Stable demand outlook for construction industry: The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry.

Government of India (GoI) has undertaken several steps for boosting the infrastructure development and to revive the investment cycle in the country. The same has gradually resulted in increased workorder inflow and movement of passive orders in the existing order book of the players like DWISL. Thus, demand outlook for the construction industry remains stable; though shall also depend on movement in the order book, financial health of the companies & effectiveness of government support.

Key weaknesses

Moderate scale of operations: Total Operating Income (TOI) TOI of the company remained on increasing trend in past 5 years ended FY23. The TOI in FY23, grew by ~55% y-o-y basis to Rs.174.08 crore as against a TOI of Rs.119.12 crore in FY22. Further, owing to healthy orderbook in hand, the company expects to achieve TOI of ~Rs.235.51 crore in FY24.

Furthermore, during 9MFY24, company reported TOI of Rs.135.43 crore along with correction in PBILDT margins to 32.88%. Further with nominal interest charges and depreciation, the PAT remained at 24.69%.

Geographical and segmental concentration risk: The order book of DWISL is geographically concentrated with orders limited to single state of Karnataka. However, DWISL has established presence in the state for water supply projects (WSP) since the company is well-equipped with technological expertise and execution capabilities.

DWISL specialises in WSP across the state of Karnataka and hence the orderbook largely comprises of water supply projects (~90% of the orderbook), followed by miscellaneous (8%), road projects (1.50%) and irrigation (0.50%). However, the

company is gradually focusing on diversifying into railways and road sector. Nevertheless, focus of the government on water related infrastructure through Jal Jeevan Mission and Namami Gange Mission, mitigates the risk to a certain extent. Further, DWISL has already executed few irrigations and road construction projects amounting to Rs. 14.53crore from FY21-FY23 on JV basis and has also received new contracts for railway segment worth Rs.4.28crore in 9MFY24, leading to gradual segmental diversification.

Presence in an intensely competitive and fragmented construction industry with tender based nature of operations: DWISL is a mid-sized player operating in intensely competitive and fragmented construction industry, wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bidding price. The competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which restricts the margins. Moreover, due to low counterparty credit risk and a relatively stable payment track record associated with projects funded by central and state government bodies, these projects are lucrative for all the contractors and hence remained highly competitive.

Susceptibility of profitability to fluctuations in input prices: The execution period of contracts awarded to DWISL usually range from 12-30 months. Thus, its profitability remains susceptible to fluctuations in inputs prices such as raw-materials, labours, steel, cement and sand etc. However, DWISL's majority of orderbook has in-built price escalation clause, which mitigates the risk arising out of adverse movement in input prices to a large extent.

Liquidity: Adequate

Adequate Liquidity of DWISL is supported by sufficient cushion in its GCA vis-à-vis negligible repayment obligation of Rs.0.29 crore as against GCA of Rs.49.78 crore, nil utilisation of its fund based working capital limits and satisfactory operating cycle. However, utilisation of non-fund-based limits remained high at almost fully utilised for the trailing 12 months ended February 29,2024. As on December 31,2023, DWISL had free cash and liquid investments of Rs. 0.17 crore, excluding lien marked FD's of Rs.5.28 crore.

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](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Construction](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

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

Denta Water and Infra Solutions Limited (DWISL) was founded on Nov 17,2016, by Smt. Sowbhagyamma and Dr. Shri. Rajashekar Sujith. The company is now headed by Mr. Manish Shetty (MD). DWSIL is engaged in the field of water engineering, procurement, and construction (EPC) services. With a track record in infrastructure project installations, including groundwater recharging through recycled water, turnkey projects involving setting up of water supply network, irrigation, as well as providing operation and maintenance (O&M) services.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	119.12	174.08	135.43
PBILDT	51.37	66.72	44.53
PAT	38.34	49.85	33.44
Overall gearing (times)	0.00	0.01	NA
Interest coverage (times)	6,421.25	709.77	742.17

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are 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 Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various 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		-	-	-	10.50	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	60.50	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-Cash Credit	LT	10.50	CARE BBB; Stable				
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	60.50	CARE BBB; Stable / CARE A3+				

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

Annexure-3: Detailed explanation of 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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