

Dineshchandra R. Agrawal Infracon Private Limited

March 29, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper (Carved out)*	25.00	CARE A1+ (A One Plus)	Assigned
Total Short Term Instruments	25.00 (Rs. Twenty-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instruments of DRAIPL derives strength from experienced promoters and its established presence in the infrastructure segment, operational track record of over five decades with demonstrated execution capability along with healthy revenue visibility marked by segmentally and geographically well-diversified orderbook with limited counterparty credit risk.

The rating further derives strength from DRAIPL's growth in scale of operations, comfortable capital structure, robust debt coverage indicators and various initiatives undertaken by the Government of India (GOI) to mitigate challenges & bottlenecks being faced by the road construction sector. The rating is also underpinned by efficient management of its working capital requirement despite being present in a working capital intensive industry along with strong liquidity position marked by sizeable amount of liquid cash and bank balances along with unutilised bank lines. The rating also favourably takes cognisance of achievement of appointed date in its four under construction HAM (Hybrid Annuity Model) special purpose vehicles (SPVs), satisfactory project progress thereupon along with infusion of part equity commitments in the projects.

The above rating strengths are, however, tempered on account of relatively moderate profitability, which is further susceptible to surge in commodity price volatility, inherent challenges associated in scaling up of resources for executing large order book, inherent risk associated with its HAM and real estate projects under Build-Operate- Transfer (BOT) model and inherent challenges associated with construction sector.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in its total operating income (TOI) to below Rs.2000 crore with dip in PBILDT margin to below 8% on a sustained basis.
- Deterioration of capital structure with total debt/PBILDT exceeding beyond 2 times.
- Higher than expected corporate guarantee/shortfall undertaking in the BOT projects
- Increase in working capital intensity with increase in gross current asset days (GCA days) to over 180 days or substantial decline in the available liquidity buffer (in form of unencumbered cash and cash equivalents and undrawn working capital lines) in the company.

Detailed description of the key rating drivers

Key Rating Strengths:

Experienced promoters in with established operational track record and proven execution capabilities: DRAIPL, under the able leadership of Mr Dineshchandra Agrawal, has an established operational track record of over five decades in the infrastructure segment with execution of multiple large scale and prestigious projects. Further, Mr. Hardik Agrawal and Mr. Sumit Agarwal, sons of Mr. Dineshchandra Agrawal are also actively involved in the day to day activities. DRAIPL has achieved provisional commercial operations date (COD) for its three HAM projects well before scheduled commercial operations date (SCOD) which substantiates its strong execution capability.

Healthy revenue visibility marked by segmentally and geographically diversified order book position with limited counterparty credit risk: As on December 31, 2021, DRAIPL had a strong outstanding order book position of Rs.15,144 crore with order book to TOI ratio at 5.37x, which provides strong revenue over medium term. DRAIPL has also been declared as L1 (lowest bidder) for orders amounting to Rs.2652 crore. Even though DRAIPL has executed multiple projects in various segments in the past, DRAIPL earlier was primarily focussed on undertaking of roads and bridges contracts. However, with increased competition in the segment, the DRAIPL has further segmentally diversified its order book position with roads & bridges contributing 61% of its outstanding order book, 29% from railways, 6% from airport projects and balance amongst others. DRAIPL has also received a project of a section of Ahmedabad-Mumbai bullet train in joint venture with IRCON International Ltd (rated CARE AAA; Stable) during December 2021. The order book is further geographically diversified across 14 states with Gujarat contributing around 28% of the order book, while balance spread across Haryana, Delhi, Andaman & Nicobar, amongst others. Out of the order book, 27% of the order are from its HAM SPVs, while the rest from other reputed clientele. The clientele includes various government departments like Ministry of Road Transport and Highways (MoRTH), National Highways Authority of India (NHAI), Indian Railways, and other state authorities, translating into limited counter-party risk. Nevertheless, DRAIPL is exposed to inherent challenges in scaling up of resources to execute the current large order book.

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

Steady growth in scale of operations: Despite COVID-19 related disruptions, DRAIPL reported stable scale of operations with a TOI of Rs.2821 crore during FY21 (refers to the period April 1 to March 31) (FY20: Rs.2748 crore). DRAIPL's TOI during last five years ended FY21 grew at a CAGR of 25% p.a., and the growth is envisaged to remain at similar level for FY22 owing to strong order book position. During 9MFY22 (provisional)(refers to the period April 1 to December 31), DRAIPL reported a TOI of Rs.2292 crore as against Rs.1618 crore during 9MFY21. The operations of DRAIPL were impacted during FY21 due to outbreak of COVID-19 and further in Q1FY22 due to second wave of the COVID-19, despite which, it was able to report steady growth in its operations.

Comfortable capital structure with robust debt coverage indicators: DRAIPL has a conservative external debt policy marked by its low total debt and NIL utilisation of its fund-based working capital limits. Capital structure of DRAIPL is comfortable marked by an overall gearing (including mobilisation advances) of 0.26x as on March 31, 2021 (0.28x as on March 31, 2020). Moreover, DRAIPL is a net-debt free company as on March 31, 2021. It has also extended corporate guarantee and letter of undertaking for the debt availed by two of its SPVs, considering which, the adjusted overall gearing continues to remain comfortable marked at 0.56x as at March 31, 2021 (0.98x as at March 31, 2020). The debt coverage indicators remained strong marked by an interest coverage of over 16x during FY21 (FY20: 15x) and total debt/PBILDT of 0.65x (FY20: 0.55x). As on December 31, 2021, overall gearing moderated to 0.65x as DRAIPL has availed mobilisation advances to the tune of Rs.509 crore (primarily from its HAM SPVs) (as against Rs.129 crore as on March 31, 2021). However, the same has been adjusted towards the billing done and are envisaged to reduce as at FY22 end. Total outside liabilities (TOL)/ Net worth (NW) remained moderate at 1.46x as at March 31, 2021 (2.01x as at March 31, 2020). The same is on account of availing of higher credit period from its suppliers and sub-contractors.

Working capital intensive nature of operations albeit efficient management of the same: DRAIPL's operations have high working capital intensity primarily due to funding requirement for security deposits, retention amount and margin money towards various contracts and non-fund-based facilities. However, DRAIPL manages its working capital requirement through creditors and deposits from sub-contractors along with good collection efficiency and low inventory levels leading to a negative working capital cycle. The GCA days was also comfortable at 96 days for FY21, which further reduced to 71 days during 9MFY22 due to lower receivables.

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector: GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include premium rescheduling for stressed projects, bidding of tenders only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% exit within 6 months from COD. NHAI has also made favourable changes in the clauses of model concession agreement of HAM projects and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate.

Furthermore, to ease the funding and smoothen the cash flows of the projects during construction phase due to on-going COVID-19 pandemic, NHAI has also permitted to disburse monthly grant/bills against the work billed as against the previous milestone-based payments till March 31, 2022.

Relaxation in bidding criteria such as waiver of bid bond guarantee led to stiff competition in road sector from Q3FY21. However, with sizeable order inflow to mid-sized EPC contractor as well as tightening of norms by NHAI, competition is expected to soften from Q4FY22 and likely to benefit established players like DRAIPL.

Key Rating Weaknesses:

Relatively moderate profitability: Although DRAIPL undertakes complex bridge projects, the operating profitability over the years has remained moderate compared to its peers. During FY21, DRAIPL reported a PBILDT margin of 10.81% as compared to 10.85% during FY20. The managerial remuneration paid during FY20 and FY21 remained high at around Rs.151 crore and Rs.89 crore respectively. PBILDT margins, adjusting such remuneration stood at 13.97% for FY21 (FY20: 16.34%). During 9MFY22, DRAIPL reported decline in PBILDT margin to 10% due to a disproportionate hike in commodity prices and initial site mobilization expenses pending commencement of significant revenue. Furthermore, the managerial remuneration during 9MFY22 has reduced to Rs.12 crore. DRAIPL's ability to improve profitability is crucial from credit perspective.

Exposure to HAM and Real Estate projects under PPP and inherent execution risks: DRAIPL has portfolio of three operational HAM projects with aggregate bid project cost (BPC) of Rs.2,265 crore and two under construction real estate project aggregating Rs.397 crore. Furthermore, DRAIPL has four under construction HAM projects in its portfolio, which would entail equity commitments totalling Rs.570 crore over FY22-FY24, of which DRAIPL has already infused Rs.312 crore till March 23, 2022. It has also been recently awarded two new HAM projects with aggregate BPC of around Rs.2300, which are yet to receive appointed date. However, DRAIPL has sufficient sources of funding the same by way free cash and cash equivalents of Rs.583 crore and undrawn debt of Rs.500 crore in one operational HAM project besides unutilised working capital limits. Also, DRAIPL remains exposed to execution and implementation risk associated with these projects. However, four HAM projects have received appointed date, two of which are progressing ahead of schedule and progress of other two is also satisfactory. Also, DRAIPL has a track record of completing all its earlier 3 HAM projects ahead of schedule, demonstrating strong execution capabilities, which mitigates the execution risk to an extent.

Inherent challenges associated with the construction industry: Disproportionate hike in commodity prices as compared to inflation indexation, aggressive bidding, delay in achievement of 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 the margins of the entities in the industry.

Liquidity: Strong

DRAIPL has a strong liquidity characterised by sufficient cash accruals vis-à-vis repayment obligations along with utilised working capital limits and free cash available with the company. The gross loan repayments are in the range of Rs.40-50 crore against GCA of Rs.232 crore during FY21. Furthermore, DRAIPL has access to undrawn debt of Rs.500 crore for an operational HAM project, which was completed entirely with equity and construction support without availing of debt. As on March 31, 2021 and December 31, 2021, DRAIPL had free cash and cash equivalents of Rs.616 crore and Rs.583 crore respectively. Furthermore, the fund-based limits remained entirely unutilised for the trailing twelve months ended January 2022, which underscores its strong liquidity position. During FY21, DRAIPL reported cashflow of Rs.307 crore (FY20: Rs.456 crore) from operations.

Analytical approach: Standalone factoring in the corporate guarantee and shortfall undertaking provided to the SPVs in the assessment of DRAIPL

Applicable Criteria

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Construction

About the credit enhancement provider- DRAIPL

DRAIPL, founded in 1972 as a partnership firm by Mr Dineshchandra R Agrawal, was converted to a private limited company in November, 2003. DRAIPL is engaged in the business of construction of roads, bridges and drainage systems across the country.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income (TOI)	2,748	2,821	2,292
PBILDT	298	305	216
PAT	191	197	128
Overall gearing (times)*	0.28	0.26	0.65
Interest coverage (times)	15.09	15.67	16.62

* including mobilisation advances; A: Audited UA: Unaudited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)		-	-	7-364 days	25.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper-Commercial Paper (Carved out)	ST	25.00	CARE A1+				

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 instrument	Complexity level
1	Commercial Paper-Commercial Paper (Carved out)	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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