Dilip Buildcon Limited

May 22, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debentures	300.00	**CARE A; Stable (Single A; Outlook: Stable)**	**Assigned**
Total	**300.00 (Rupees Three Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The rating assigned to the Non-convertible debenture (NCD) of Dilip Buildcon Limited (DBL) takes into account DBL's leading position in the Indian road construction sector with strong project execution capabilities leading to early completion of its projects and consequently earning performance bonus, ownership of large equipment fleet, strengthened and geographically diversified order book in different segments like roads and highways, mining, irrigation, metro (civil work), airport, etc., experienced promoters, large scale of operations, healthy operating profitability, good financial flexibility and benefits expected from various initiatives undertaken by the Government of India to mitigate challenges and bottlenecks being faced by the road construction sector.

The ratings further take into account the receipt of substantial consideration from Shrem Group (part of Chhatwal Group Trust) in a phased manner for divestment of its entire stake in its 24 special purpose vehicles (SPV). The rating also positively factors in the infusion of equity as per the requirements of respective sanctions in most of the 12 under-construction hybrid annuity model (HAM) projects coupled with substantial project progress in each of the projects. Further, stake sale arrangement for five out of above mentioned 12 projects with Cube Highways and Infrastructure Pte Limited (Cube) is expected to lower equity commitments in near term which is expected to provide cash flow cushion in challenging time of COVID-19. Management's stance of curtailing capital expenditure is also envisaged to reduce capital intensity of the company.

The above rating strengths, however, continue to remain tempered by high working capital intensity of its operations leading to high debt levels and in-turn moderate debt coverage indicators and liquidity. Although majority of company's project site has commenced construction activities from April 2020 onwards, challenges in procuring raw-material and issues related to labor migration may lead to muted revenues during FY21 as against earlier estimates. However as the majority of the company's outstanding order book position is from National Highway Authority of India (NHAI) and Ministry of Road Transport & Highway (MoRTH), the payment risk is mitigated to an extent.

DBL has already received sanction for adhoc fund based working capital limits under Covid scheme and has availed moratorium on interest payment of existing debt liabilities for the month of April and May 2020 which is expected to support the liquidity position of the company. The rating also takes the note of the company's plan to raise long term debentures in order to provide additional cushion to its working capital requirements in medium term and reduce its costs of funds by replacing existing high cost debt. While total debt/PBILDT is expected to remain slightly higher than earlier estimates due to Covid-19 impact, better management of working capital cycle and liquidity cushion are crucial so that the same does not continue on a sustained basis.

Rating Sensitivities:

Positive Factors:

- *Significant improvement in the working capital intensity along with curtailed investment commitments leading to significant improvement in the leverage and debt coverage indicators on sustained basis*

Negative Factors:

- *Higher than envisaged capex and gross current asset days exceeding 230-240 days leading to total debt / PBILDT exceeding 3.25 times and TOL/TNW exceeding 2 times on sustained basis. While total debt/PBILDT is expected to remain slightly higher than earlier estimates due to Covid-19 impact, better management of working capital cycle and liquidity cushion are crucial so that the same does not continue on a sustained basis.*
- *More than 15-20% decline in total operating income (TOI), in coming years, impacting the debt coverage indicators.*
- *Significant support requirement, if any in coming years, in the state annuity projects where DBL has extended corporate guarantee*

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Detailed description of key rating drivers

Key Rating Strengths:

Largest player in the Indian road construction sector with strong project execution capability and consistent track record of receipt of performance bonus: DBL is the largest player in the Indian road construction sector in terms of scale of operations and order book size. DBL has demonstrated strong execution capability over the past few years with completion of most of its projects before time on a pan-India basis. DBL bids for projects after factoring synergetic benefits arising from clustering of projects and stretches with relatively lower hurdles of land acquisition and clearances. DBL has earned performance bonus of around Rs.440 crore during FY12-FY19 with completion of many of its projects ahead of schedule project completion date (SPCD). Further, it expects sizeable bonus during FY20 on account of early completion of HAM projects. Five of its six HAM projects sold to Shrem group has also received PCOD before schedule / on time and most of its ongoing under construction HAM projects are progressing ahead of schedule which reflects its strong execution capability.

Vast experience of the promoters and project execution team: DBL's largest shareholder, Mr. Dilip Suryavanshi and family, has been in the business of road construction for more two decades. The other promoter, Mr. Devendra Jain, is a civil engineer with a longstanding experience in project execution. DBL has also recruited experienced professionals in various fields to manage the core activities.

Strengthened order book with geographical and segmental diversification: DBL's order book remained healthy at Rs.21, 205 crore as on December 31, 2019 despite slowdown in order intake from NHAI on account of foray in different segments like construction of special bridges, airports, tunnels and metro (only civil work) apart from the road sector which constituted around 36.19% of the outstanding order book position and balance being constituted by road segment. Furthermore, 70% of the outstanding order book position is from Central Government. DBL's order book is also geographically diversified across 10 states with Maharashtra, Karnataka, Madhya Pradesh, Uttar Pradesh and Jharkhand constituting major share of order book. DBL has also commenced work at most of the sites following resumption of operations in April 2020. Further, labour availability is also not a major concern in these sites as articulated by management. Furthermore, DBL has also executed a Coal Mining Agreement (CMA) in consortium with VPR Mining Infrastructure Pvt Ltd (VPR) for the Mine Developer cum Operator (MDO) contract for the development and operation of Pachhwara Central Coal Block of Punjab State Power Corporation Limited (PSPCL) in the state of Jharkhand for 55 years. DBL has incorporated a separate SPV for the said project and the management has articulated that since this was an already operational mine earlier it does not envisage any major equity commitment /capex in this coal MDO project. Any change in management stance impacting the leverage and debt coverage indicators of DBL shall be key rating monitorable.

Ownership of sizable equipment fleet: DBL has a very large equipment fleet as reflected by 11,741 construction equipment with gross block of Rs.3,378 crore as on March 31, 2019. DBL has incurred capex of Rs.540 crore during FY19 which was in line with the company's expectations. However, DBL has curtailed its capex as witnessed by capex of around Rs.30 crore during H1FY20 and has also envisaged lower capex in the near term.

Healthy growth in scale of operations and healthy operating profitability (PBILDT margin): Total operating income (TOI) of DBL grew at a healthy rate of 18% during FY19 on account of execution of large orders in both HAM and EPC segment. However, TOI remained stable during 9MFY20 as compared to 9MFY19 mainly on account of delay in receipt of appointed date of HAM projects and prolonged monsoon. PBILDT margins, though declined marginally from 18.24% during FY18 to 18% during FY19, it continued to remain healthy. PBILDT margins continued to remain healthy at 18.15% during 9MFY20.

Updates on the stake sale transactions of the company: DBL had signed a term sheet with Chhatwal Group Trust (CGT, part of Shrem group) to divest its entire stake in its 24 SPVs (17 operational state annuity and state toll plus annuity projects, six under construction HAM projects of NHAI- five of which is now operational; and one under construction toll project of NHAI-now operational) for a consideration of around Rs.1600 crore of which DBL has received around Rs.1372 crore till FY20. DBL expects saving of around Rs.100 crore in the equity requirement of HAM projects sold to Shrem due to early completion of projects (and hence lower equity investment from Shrem to that extent). Further, the last tranche of stake sale proceeds is envisaged in FY21 owing to pending approvals from authorities.

Further, DBL has also entered into stake sale agreement with Cube for stake sale of its five under construction HAM projects in September 2019. As per the terms of the agreement, initially DBL shall be required to infuse 51% of the total equity commitments of those projects whereas balance shall be infused by Cube post achievement of the requisite physical progress in the projects. DBL has already infused its portion of equity commitment in the aforesaid five HAM projects. DBL shall receive consideration in two stages; one being on achievement of commercial operations date (COD) of the projects and second being post completion of mandatory lock in period as per the concession agreement of the respective projects.

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector: GOI through NHAI 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 for developers after two years of project completion and NHAI funding for projects that are stuck at advanced stages of completion. Furthermore, NHAI has made some favourable changes in the clauses of model concession agreement and introduced HAM based BOT projects to reduce the equity commitment of the developers. However, project awarding activity declined during FY19 and FY20 due to challenging fund raising environment for developers, land acquisition issues for NHAI, delay in effective implementation of contractual reforms of HAM and limited contractor bandwidth in India. EPC is envisaged to be the preferred mode of award till improvement in fund raising environment and bidding appetite of the developers.

Key Rating Weaknesses:

Moderate leverage and debt coverage indicators on account of high debt levels: DBL's leverage continued to remain moderate as on March 31, 2019 and December 31, 2019 account of relatively high debt levels due to working capital as well as capital intensive nature of operations. It is to be noted that DBL secured 12 HAM projects with aggregate bid project cost of Rs.16,000 crore in Q4FY18 for which it received appointed dates in a staggered manner marked by receipt of appointed dates of four HAM projects during FY19 (mainly during Q3FY19 and Q4FY19) and balance eight HAM projects during FY20 (till Q3 FY20) leading to higher proportion of unbilled revenue and upfront equity requirement. Moreover, management's strategy for early completion of projects also leads to higher site mobilization expenses which together have resulted in higher reliance on working capital borrowings. Working capital intensity is may remain high due to COVID-19 pandemic. However, sanction of the ad-hoc fund based working capital limits and moratorium availed on interest servicing of existing debt liabilities is expected to provide some cushion. Furthermore, company also plans to avail long term debentures in order to provide additional cushion to working capital requirements and reduce its cost of funds by replacing existing high cost debt. DBL's ability to gradually rationalize its debt levels there by improving its debt coverage indicators remains one of the key rating sensitivities.

Liquidity analysis: Adequate

Working capital intensive operations: Collection period of DBL remained stable at 60 days during FY19 due to greater focus on NHAI EPC and HAM projects. DBL is in the process of gradual write off of the debtors stuck from the private parties (mainly from Essel and Topworth groups) as witnessed from the provision of debtors of Rs.110 crore during FY19 and further Rs.20 crore during H1FY20. Despite execution of larger size projects, inventory level of DBL remained high on account of delay in receipt of the appointed date while management has incurred significant pre-operative expenses in order to complete the projects ahead of schedule. However with receipt of appointed date of all the HAM projects, inventory levels are expected to reduce with the execution in near term. High inventory levels and other current assets have led to higher gross current asset days of 254 days during FY19 and 263 days during H1FY20 as compared to other players in the industry. Due to COVID-19, the receivables of the company are expected to elongate resulting into relatively higher working capital intensity and higher gross current assets days over medium term. However, some comfort can be derived from sanction of the ad-hoc fund based working capital limits during April and May 2020 providing some liquidity cushion. The average utilization of fund based working capital limits remained at 86% during the trailing twelve months ended April 2020. In addition, DBL had free cash and cash equivalents of Rs.85-Rs.90 crore as on March 31, 2020.

Analytical Approach: CARE has analyzed DBL's credit profile by considering its standalone financial statements along with factoring the cash flow impact of likely support to or investment in its SPVs. DBL has divested its controlling stake in its 18 operational SPVs and in process of divesting entire stake, however corporate guarantee in the five operational SPVs with aggregate debt of Rs.1164.30 crore as on March 31, 2019 is expected to be continued as per no objection certificate issued by lenders. Nevertheless, shortfall in operational period is almost nil in all the above mentioned five operational SPVs as these comprise of four toll cum annuity projects from state authority and one toll project of NHAI with adequate debt coverage indicators. Apart from the above, DBL has also extended corporate guarantee of Rs.1889.41 crore as on March 31, 2019 to the operational / under construction six HAM SPVs either till COD or till receipt of some annuities or till entire tenor of the loan. However, these corporate guarantees are not expected to provide any credit enhancement to these SPVs in the medium term and hence no support shall be required to be extended by DBL as these are operational/largely completed HAM projects of NHAI (rated CARE AAA; Stable) with comfortable debt coverage indicators. Further, strong execution capability of DBL mitigates the additional support requirement during construction phase to an extent.

Name of the SPVs to which corporate guarantee of DBL has been given by DBL as on March 31, 2019	Operational status
DBL Ashoknagar Vidisha Tollways Ltd.	Operational
DBL Tikamgarh Nowgaon Tollways Ltd.	Operational
DBL Betul Sarni Tollways Ltd.	Operational
DBL Hata Dargawon Tollways Ltd.	Operational
DBL Patan Rehli Tollways Ltd.	Operational
DBL Mundargi Harapanahalli Tollways Ltd.	Operational
Jalpa Devi Tollways Ltd.	Operational
DBL Lucknow Sultanpur Highways Ltd.	Operational
DBL Kalmath Zarap Highways Ltd.	Operational
DBL Yavatmal Wardha Highways Pvt Ltd.	Operational
DBL Tuljapur Ausa Highways Ltd.	Operational
DBL Wardha Butibori Highways Pvt Ltd.	Operational
DBL Chandikhole Bhadrak Highways Pvt Ltd.	Under-construction
DBL Mahagaon Yavatmal Highways Pvt Ltd.	Under-construction

Applicable Criteria:
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Short Term Instruments]
[Rating Methodology – Construction Sector]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Financial Ratios – Non Financial Sector]

About the Company
Incorporated in 2006 by Mr. Dilip Suryavanshi and family, DBL is a Bhopal-based company engaged in the construction of roads on EPC basis and a developer of roads on BOT basis/ HAM model. DBL was initially started as a proprietorship firm "Dilip Builders" in 1988-89 and subsequently converted into a public limited company. During August 2016, DBL has successfully completed initial public offer (IPO) of Rs.654 crore which included fresh issue of Rs.430 crore and balance through sale of partial stake by promoters and investor, Banyan Tree Growth Capital LLC. Promoter group held 75% stake as on September 30, 2019. BOT portfolio of DBL mainly comprised of annuity, hybrid annuity (HAM) and toll plus annuity projects.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	7,761	9,162
PBILDT	1,418	1,649
PAT	620	765
Overall gearing (times)	1.88	1.83
Interest coverage (times)	3.05	3.11

A: Audited

As per provisional published results for 9MFY20, DBL earned TOI of Rs.6.506 crore (9MFY19: Rs.6,575 crore) and PAT of Rs.310 crore (9MFY19: Rs.545 crore).

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Debentures-Non Convertible Debentures	NA	NA	NA	300.00	CARE A; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Demand loan	LT	320.00	CARE A; Stable	-	1)CARE A; Stable (06-Jan-20)	1)CARE A; Stable (12-Dec-18)	1)CARE A+ (Under Credit watch with Developing Implications) (05-Sep-17) 2)CARE A+; Stable (21-Jun-17)
2.	Fund-based - LT-Cash Credit	LT	1620.00	CARE A; Stable	-	1)CARE A; Stable (06-Jan-20)	1)CARE A; Stable (12-Dec-18)	1)CARE A+ (Under Credit watch with Developing Implications) (05-Sep-17) 2)CARE A+; Stable (21-Jun-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	210.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (06-Jan-20)	1)CARE A; Stable / CARE A1 (12-Dec-18)	1)CARE A+ / CARE A1 (Under Credit watch with Developing Implications) (05-Sep-17) 2)CARE A+; Stable / CARE A1 (21-Jun-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	4290.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (06-Jan-20)	1)CARE A; Stable / CARE A1 (12-Dec-18)	1)CARE A+ / CARE A1 (Under Credit watch with Developing Implications) (05-Sep-17) 2)CARE A+; Stable / CARE A1 (21-Jun-17)
5.	Non-fund-based-LT/ST	LT/ST	55.00	CARE AAA (CE); Stable / CARE A1+ (CE)	-	1)CARE AAA (CE); Stable / CARE A1+ (CE) (06-Jan-20) 2)CARE AAA (SO); Stable / CARE A1+ (SO) (03-May-19)	1)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (01-Mar-19)	-
6.	Non-fund-based-LT/ST	LT/ST	-	-	-	1)Withdrawn (06-Jan-20) 2)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (03-May-19)	1)Provisional CARE AAA (SO); Stable / CARE A1+ (SO) (01-Mar-19)	-
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE A; Stable	-	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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