Dilip Buildcon Limited

June 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,998.09	CARE A+; Stable [Single A Plus; Outlook: Stable]	Revised from CARE A- [Single A Minus]
Long-term/Short-term Bank Facilities	4,500.00	CARE A+; Stable / CARE A1 [Single A Plus; Outlook: Stable/A One]	Revised from CARE A-/CARE A2+ [Single A Minus/ A Two Plus]
Total Facilities	**6,498.09 (Rupees Six Thousand Four Hundred Ninety Eight crore and Nine lakh only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Dilip Buildcon Limited (DBL) take into account growth in its total operating income and receipt of sizeable performance bonus during FY17 (refers to the period April 1 to March 31) on account of early completion of its various road projects which in turn led to healthy cash accruals. The revision in ratings also factor improvement in its collection efficiency during FY17 due to sizeable realization of its stuck debtors from private parties and increased focus on execution of orders from government authorities over last two years.

The ratings continue to take into account DBL's demonstrated capabilities in execution of large sized road projects, ownership of large equipment fleet, strengthened and geographically diversified order book, experienced promoters, healthy operating profitability, improved financial flexibility post successful completion of initial public offer (IPO) and toll plus annuity nature of its operational build-operate-transfer (BOT) projects which largely mitigates revenue risk from traffic fluctuations. The ratings also take cognizance of favourable prospects for the road construction sector in the medium term on the back of various initiatives undertaken by the Government of India.

The rating strengths, however, continue to remain tampered by its moderate debt coverage indicators on account of high debt levels owing to its working capital intensive operations and capital expenditure incurred by DBL towards purchase of equipment fleet.

The ratings also take cognizance of the recently stated intent of the management of DBL to curtail capital expenditure and plan to arrange alternate sources (including asset monetization) towards funding of equity commitment of its hybrid annuity projects which in turn is expected to restrict the incremental debt requirement. Any major deviation in the same adversely impacting the debt protection indicators is the key rating sensitivity.

DBL's ability to improve its debt coverage indicators through rationalization of its high debt levels by ensuring efficient management of its working capital requirements leading to shortening of its operating cycle and improvement in its capital structure shall also be the key rating sensitivities.

[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

Demonstrated execution capability with consistent track record of receipt of performance bonus

DBL has completed 47 road projects covering 5,612 lane km on or ahead of schedule which demonstrates its efficient execution capability. Apart from Madhya Pradesh, DBL has completed projects in the state of Andhra Pradesh, Telangana, Maharashtra, Uttar Pradesh and Karnataka during last two years with aggregate contract value of Rs.3811crore reflecting pan India execution capability. DBL bids for projects after factoring synergetic benefits from clustering of projects and stretches which involve relatively lower hurdles of land acquisition and clearances. This results in timely completion of projects, lower site mobilization expenses and efficient utilization of resources. DBL had earned performance bonus of Rs.106 crore during FY17.

Strengthening of order book with continuous reduction in dependence on private developers and improved geographical diversification

DBL's order book further strengthened to Rs. 17,568 crore as on March 31, 2017 despite execution of work of around Rs. 5075 crore during FY17. It is on account of order inflow of Rs.11,865 crore during FY17. DBL has secured six hybrid annuity projects with aggregate bid project cost of Rs.6,033 crore during FY17. Roads and highways, mining, irrigation and urban development constituted 83%, 15%, 1% and 1% respectively as on March 31, 2017. Share of private parties reduced to 6% as on March 31, 2017 as compared to 15% as on June 30, 2015.

Share of Madhya Pradesh has reduced steadily from 73% of the order book as on March 31, 2014 to 29% as on March 31, 2016 and further to 16% as on March 31, 2017 establishing its presence across 12 states reflect its pan India presence.

Growth in total operating income along with healthy PBILDT margin

Total Operating Income (TOI) of DBL grew by around 25% during FY17 on y-o-y basis on account of execution of large orders in Engineering Procurement and Construction (EPC) segment and own BOT projects. DBL has become one of the largest EPC contractors in the road sector in India vide reporting contract receipt of Rs.4,571 crore during FY17. PBILDT margin of DBL is above industry average due to better execution capability, geographical clustering of projects, lower reliance on subcontracting, ownership of large equipment fleet and receipt of bonus for early completion. PBILDT margins of DBL continued to remain healthy at 19.65% during FY17. PBT margins improved from 5.92% during FY16 to 7.05% during FY17 on account of decline in interest cost subsequent to receipt of IPO proceeds.

Improvement in leverage

DBL's overall gearing improved from 2.76 times as on March 31, 2016 to 1.77 times as on March 31, 2017 on account of strengthening of its networth post IPO and rationalization of working capital borrowing in comparison to growth in scale of operations. Moreover, its financial flexibility in terms of raising funds while diluting promoter's stake (if required) has also improved post IPO. However, DBL's leverage though improved continued to remain moderate on account of high debt levels towards purchase of equipment fleet for mining projects awarded to the company and investment in the SPVs.

Portfolio of operational BOT projects with annuity oriented revenue stream providing financial flexibility

DBL has refinanced the term loans for its eight toll plus annuity and three annuity based projects with lower interest rates and longer tenure without extending its corporate guarantee. Current BOT portfolio of DBL is largely self-sustainable due to their toll plus annuity nature of revenue stream which provides financial flexibility to an extent as the annuity is largely sufficient to cover their respective debt servicing requirements. DBL has not extended any major support in the form of unsecured loans to its operational BOT projects during FY16 and FY17. Total amount invested by DBL (including unsecured loans) in these operational BOT projects except one toll project stood at Rs.465 crore as on March 31, 2017. Annuity nature of revenue stream of these operational SPVs provides financial flexibility for raising funds through stake sale while bundling of these SPVs.

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 recruited experienced professionals in various fields to manage the core activities.

Favourable prospects for the road sector on the back of various initiatives undertaken by Government of India
The inherent risk involved in the construction industry including aggressive bidding, traffic risk, interest rate risk, volatile commodity prices and delay in project progress due to resistance towards land acquisition and regulatory clearances have collectively affected the credit profile of the developers in the past. Nevertheless, the government through NHAI has taken various steps to revive the road sector. This includes premium rescheduling for stressed projects, bidding of tenders only after 80% land has been acquired for the project, fast track clearances of the projects, 100% exit for developers after two years of project completion, award of projects under hybrid annuity model, release of 75% arbitration claim against bank guarantee and NHAI funding for projects that are stuck at advanced stages of completion. NHAI has also made few changes in the clauses of model concession agreement to address the hindrances related to the project execution.

Key Rating Weakness

Moderate debt protection indicators
DBL management's strong appetite towards growth fuelled with debt funded investment outgo, business model of own equipments as against hiring and working capital intensive operations has led to higher debt levels and moderate debt protection indicators. Its debt protection indicators improved to an extent during FY17 on account of healthy cash accruals. Total debt/GCA improved from 8.19 times during FY16 to 6.31 times during FY17. However, DBL had outstanding term loans of Rs. 990 crore as on March 31, 2017 from banks and financial institutions with repayments maturing over next 36 months which results in higher repayment obligations in the medium term. DBL is planning to replace existing loans with longer tenure loans to further improve its debt coverage indicators. Materialization of various fund raising plans (including stake sale) and planned curtailment of capital expenditure are crucial for rationalizing debt levels.

Working capital intensive operations despite some improvement
Cash flow from operations of DBL improved during FY17 mainly on account of rationalization of current assets and receipt of mobilization advances for new projects. Outstanding receivables from private companies mainly belonging to Essel and Topworth groups reduced from Rs.572 crore as on March 31, 2016 to Rs.376 crore as on March 31, 2017. Still, there is a substantial amount of stuck debtors as on March 31, 2017. Further, inventory level of DBL continued to remain high during FY17. DBL has enhanced its fund based working capital limits from Rs.1,465 crore to Rs.1,870 crore to manage its growing working capital requirements. Average utilization of fund based working capital limits reduced to 87% during Q4FY17 from around 95% for the trailing twelve months ended December 2016 and almost 100% with ad-hoc limits as considered earlier. Improvement in working capital intensity going forward shall be a key rating sensitivity.

Exposure to BOT projects
DBL's exposure to BOT projects in the form of investment and loans advances stood at a moderate level of 37% of its networth as on March 31, 2017.

Funding requirement for its10 under construction (including six hybrid annuity projects) projects entailing Rs.911 crore is proposed to be met through internal accrual and stake sale of some of its operational SPVs. Hence, materialization of its stake sale plan within envisaged timeframe will be crucial. DBL has also signed memorandum of understanding with Shrem Infraventure Private Ltd (SIPL) to fund 49% equity capital in the SPV incorporated for execution of Tuljapur-Ausa road project which has bid project cost of Rs.911 crore. Although, DBL has discontinued its earlier practice of extending corporate guarantee to large BOT projects till the entire tenor of the loan, it continues to extend corporate guarantee till the completion of project and to the extent of shortfall in some of the large SPVs.

Analytical Approach – Standalone along with cash flow impact of likely support to or investment in its SPVs

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector 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. 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 include 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 75.63% stake as March 31, 2017. DBL has a portfolio of 24 small to midsized BOT based road projects through SPVs which include 14 operational projects and 10 under construction projects. BOT portfolio of DBL mainly comprised of annuity, hybrid annuity and toll plus annuity projects.

Based on published audited financials of FY17, DBL reported total operating income of Rs.5,109 crore (FY16 Audited: Rs.4,101crore) and profit after tax (PAT) of Rs.361 crore (FY16 Audited: Rs.212 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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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
Fund-based - LT-Working Capital Demand loan	-	-	Dec - 19	378.09	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	1620.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	210.00	CARE A+; Stable / CARE A1
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4290.00	CARE A+; Stable / 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Demand loan	LT	378.09	CARE A+; Stable	-	1)CARE A- (21-Oct-16)	1)CARE A- (24-Feb-16) 2)CARE A- (27-Oct-15)	1)CARE A- (10-Jul-14) 2)CARE BBB+ (04-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	1620.00	CARE A+; Stable	-	1)CARE A- (21-Oct-16)	1)CARE A- (24-Feb-16) 2)CARE A- (27-Oct-15)	1)CARE A- (10-Jul-14) 2)CARE BBB+ (04-Apr-14)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	210.00	CARE A+; Stable / CARE A1	-	1)CARE A- / CARE A2+ (21-Oct-16)	1)CARE A- / CARE A2+ (24-Feb-16) 2)CARE A2+ (27-Oct-15)	1)CARE A- / CARE A2+ (10-Jul-14) 2)CARE A3+ (04-Apr-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	4290.00	CARE A+; Stable / CARE A1	-	1)CARE A- / CARE A2+ (21-Oct-16)	1)CARE A- / CARE A2+ (24-Feb-16) 2)CARE A- / CARE A2+ (27-Oct-15)	1)CARE A- / CARE A2+ (10-Jul-14) 2)CARE BBB+ / CARE A3+ (04-Apr-14)

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CIN - L67190MH1993PLC071691