Dilip Buildcon Limited

September 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,998.09	**CARE A+ (Single A Plus) (Credit watch with developing implications)**	Placed on credit watch with developing implications
Long-term/Short-term Bank Facilities	4,500.00	**CARE A+/CARE A1 (Single A Plus / A One) (Credit watch with developing implications)**	Placed on credit watch with developing implications
Total Facilities	**6,498.09 (Rupees Six Thousand Four Hundred Ninety Eight crore and Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Dilip Buildcon Limited (DBL) have been placed on 'Credit Watch with developing implications' in view of impending impact of proposed divestment of its entire stake in its 24 operational and under construction road special purpose vehicles (SPVs) to Chhatwal Group Trust in a phase-wise manner. Successful completion of the afore-mentioned transaction is expected to result in rationalization of DBL's debt levels along with reduction in its equity commitment in its under-construction road SPVs, which is likely to improve its debt coverage indicators and financial flexibility. As such, CARE Ratings would await further developments to unfold so as to enable it to assess the exact impact of the above stake sale transaction on the future funding requirement and debt levels of DBL before arriving at a view on its credit rating.

The ratings of DBL continue to take into account significant growth in its total operating income and receipt of sizeable performance bonus during FY17 (refers to the period April 1 to March 31) and Q1FY18 on account of early completion of its various road projects which in turn led to healthy cash accruals. The ratings also factor improvement in its collection efficiency during FY17 and Q1FY18 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 and proposed debt replacement plans of DBL to reduce its cost of borrowing and stagger repayment terms. The ratings further 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 its initial public offer (IPO) and toll plus annuity nature of its operational build-operate-transfer (BOT) road projects which largely mitigates revenue risk arising 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 above rating strengths, however, continue to remain tempered 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 DBL's management to curtail capital expenditure and term sheet signed for monetization of its 24 road SPVs. Successful completion of asset monetization transaction leading to improvement in the leverage and debt protection indicators of DBL will be the key rating sensitivity.

DBL's ability to manage its working capital requirements efficiently leading to shortening of its operating cycle and pace of addition of large sized BOT projects in its portfolio and its impact on the capital structure shall also be the other 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

Proposed stake sale in its SPVs with an aim of rationalizing its debt levels and reducing its equity commitment in its under-construction road SPVs

DBL has signed a term sheet with Chhatwal Group Trust on August 24, 2017 to divest its entire stake in its 14 operational SPVs, four under construction BOT SPVs and six hybrid annuity model (HAM) based road SPVs for a consideration of around Rs. 1600 crore, out of which DBL expects to receive around Rs.830 crore from stake sale of its 14 operational SPVs and four under construction BOT road SPVs. Further, DBL's funding requirement towards its equity commitment in its six under-construction HAM projects till their respective Commercial Operation Dates (CODs) is also expected to reduce substantially from Rs. 734 crore to Rs. 191 crore due to proposed funding support to be received from the investor in the form of unsecured loans as per terms of the stake sale arrangement. Stake sale of the six HAM projects is expected to take place post COD.

DBL's management has articulated to utilize the proposed stake sale proceeds for rationalization of debt levels and funding its future equity commitment, if any. DBL shall continue to remain the Engineering Procurement and Construction (EPC) and operations and maintenance (O&M) contractor for all these SPVs even post stake sale. Successful completion of the stake sale transaction and resultant improvement in DBL's debt coverage indicators and leverage shall be the key rating sensitivities. Furthermore, achievement of financial closure for HAM SPVs without recourse to DBL and DBL's ability to maintain healthy profitability while executing fixed price EPC work of HAM SPVs are also crucial from the credit perspective.

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.3811 crore 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. 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. 5,075 crore during FY17. It is on account of order inflow of Rs.11,865 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. Order book continued to remain strong at Rs.15,630 crore as on June 30, 2017.

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 reflecting 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 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. TOI further grew by 60% during Q1FY18 as compared to Q1FY17. 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 and 18.17% during Q1FY18. PAT margins improved from 5.17% during FY16 to 7.07% during FY17 on account of decline in interest cost subsequent to receipt of IPO proceeds.

Improvement in leverage' albeit remains at moderate level

DBL's overall gearing improved from 2.83 times as on March 31, 2016 to 1.75 times as on March 31, 2017 and 1.71 times as on June 30, 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 fund 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. DBL is planning to replace some of the high cost debt with low cost debt instruments with longer repayment tenor to improve its debt coverage indicators.

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

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 stood at Rs.486 crore as on March 31, 2017. Largely annuity nature of revenue stream of these operational SPVs has made them self-sustainable; which DBL now plans to monetise through a stake sale.

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; albeit inherent risks and competitive intensity exists

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. However, inherent risks associated with the sector and competitive intensity persists.

Key Rating Weakness

Moderate debt protection indicators

Strong appetite of DBL's management towards growth fuelled with debt funded investment outgo, business model of own equipment 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 8.01 times during FY16 to 6.42 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 the afore-mentioned stake sale) and planned curtailment of capital expenditure are crucial for rationalizing debt levels.

Working capital intensive operations despite some improvement

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 and Q1FY18. 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 remained at around 92% for the trailing twelve months ended July 2017. 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. However, funding requirement is expected to reduce substantially post successful materialization of stake sale transaction. Pace of addition of large sized BOT projects in its portfolio and its impact on the capital structure of DBL going forward shall be a key rating monitorable.

Analytical Approach – 'CARE has analyzed DBL's credit profile by considering standalone financial statements 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

Criteria for placing rating on credit watch

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/ 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 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. BOT portfolio of DBL mainly comprised of annuity, hybrid annuity and toll plus annuity projects.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)	Q1FY18 (UA)
Total operating income	4101	5107	1667
PBILDT	816	1002	303
PAT	221	361	123
Overall gearing (times)	2.83	1.75	1.71
Interest coverage (times)	2.14	2.41	2.74

A: Audited; UA: Un-audited

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Rating assigned along with Rating Outlook

				(Rs. crore)	
Fund-based - LT-Working Capital Demand loan	-	-	December 2019	378.09	CARE A+ (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	1620.00	CARE A+ (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	210.00	CARE A+ / CARE A1 (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4290.00	CARE A+ / CARE A1 (Under Credit watch with Developing Implications)

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+ (Under Credit watch with Developing Implications)	1)CARE A+; Stable (21-Jun-17)	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+ (Under Credit watch with Developing Implications)	1)CARE A+; Stable (21-Jun-17)	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+ / CARE A1 (Under Credit watch with Developing Implications)	1)CARE A+; Stable / CARE A1 (21-Jun-17)	1)CARE A- / CARE A2+ (21-Oct-16)	1)CARE A- / CARE A2+ (24-Feb-16) 2)CARE A2+ (27-Oct-15)	1)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+ / CARE A1 (Under Credit watch with Developing Implications)	1)CARE A+; Stable / CARE A1 (21-Jun-17)	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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