

Rating Advisory

June 12, 2018 | Mumbai

Deepak Builders - Ludhiana

Advisory as on June 12, 2018

This rating advisory is provided in relation to the rating of Deepak Builders - Ludhiana

The key rating sensitivity factors for the rating include:

- Topline and operating profitability
- Capital withdrawals/infusion
- Working capital management
- Capital expenditure (capex) plan and its funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Deepak Builders - Ludhiana (DSEB; part of the Deepak group) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If DSEB continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

Set up in 1992 to construct government flats, DSEB has worked with Ludhiana Improvement Trust, Municipal Corporation, and Punjab Small Industries & Export Corporation Ltd.

Established in 1987 as a partnership firm by Mr. Deepak Singal and Ms. Sunita Singal, DB constructs and maintains bridges and roads and also undertakes government projects. It constructs offices, hospitals, and other government buildings in Punjab for state and central authorities such as Public Works Department, Municipal Corporation, Punjab Mandi Board, and Housefed Punjab.

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Rating Rationale

March 31, 2017 | Mumbai

Deepak Builders - Ludhiana

'CRISIL BB/Stable/CRISIL A4+' assigned to bank debt

Rating Action

Total Bank Loan Facilities Rated	Rs.75 Crore
Long Term Rating	CRISIL BB/Stable (Assigned)
Short Term Rating	CRISIL A4+ (Assigned)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its '**CRISIL BB/Stable/CRISIL A4+**' ratings to the bank facilities of Deepak Builders - Ludhiana (DB; part of the Deepak group).

The ratings reflect the extensive experience of the group's promoters in the construction industry, above-average financial risk profile because of healthy gearing, and strong order book. These strengths are partially offset by working capital-intensive operations, exposure to risks relating to tender-based business, and withdrawals.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of Deepak Singal Engineers and Builders Pvt Ltd (DSEB) and DB. This is because the two entities, together referred to as the Deepak group, are in the same business, and have common management and strong operational linkages.

Key Rating Drivers & Detailed Description

Strengths

* Extensive experience of promoters

Presence of more than 30 years in the civil construction industry has enabled the promoters to clock a compound annual growth rate of 30% in revenue in the three years through fiscal 2016.

* Above-average financial risk profile

Interest coverage ratio was 3.17 times in fiscal 2016 and gearing healthy at 0.80 time as on March 31, 2016. Networth was Rs 39 crore.

* Healthy order book

Order book of Rs 470 million crore (1.56 time its fiscal 2016 revenue) provides revenue visibility for the medium term.

Weakness

* Working capital-intensive operations

Gross current assets were 107 days as on March 31, 2016, driven by stretched receivables of 55 days. Inventory, however, was small at 4 days.

* Exposure to risks relating to tender-based business

Revenue growth depends on ability to bid successfully for tenders. This is compounded by the fact that the group largely works for government entities that delay projects and payment.

* Capital withdrawals:

Promoters have withdrawn sizeable capital in the past and are estimated to have withdrawn Rs 1.5 crore in fiscal 2017.

Outlook: Stable

CRISIL believes the Deepak group will continue to benefit over the medium term from its partners' extensive experience. The outlook may be revised to 'Positive' if substantial increase in revenue and profitability leads to higher-than-expected net cash accrual, along with prudent working capital management. The outlook may be revised to 'Negative' if financial risk profile, especially liquidity, weakens on account of further decline in revenue and profitability, larger-than-expected, debt-funded capital expenditure, or increase in working capital requirement.

About the Company

Set up in 1992 to construct government flats, DSEB has worked with Ludhiana Improvement Trust, Municipal Corporation, and Punjab Small Industries & Export Corporation Ltd.

Established in 1987 as a partnership firm by Mr. Deepak Singal and Ms. Sunita Singal, DB constructs and maintains bridges and roads and also undertakes government projects. It constructs offices, hospitals, and other government buildings in Punjab for state and central authorities such as Public Works Department, Municipal Corporation, Punjab Mandi Board, and Housefed Punjab.

Book profit was Rs 19.5 crore on sales of Rs 310 crore in fiscal 2016, against Rs 10.91 crore and Rs 202 crore, respectively, in fiscal 2015.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating with
NA	Bank Guarantee	NA	NA	NA	55	CRISIL
NA	Overdraft	NA	NA	NA	20	CRISIL

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014	
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based Bank Facilities	LT/ST	20	CRISIL BB/Stable		--		--		--		--
Non Fund-based Bank Facilities	LT/ST	55	CRISIL A4+		--		--		--		--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	55	CRISIL A4+	--	0	--
Overdraft	20	CRISIL BB/Stable	--	0	--
Total	75	--	Total	0	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Construction Industry](#)

[CRISILs Bank Loan Ratings](#)

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[Criteria for rating entities belonging to homogenous groups](#)

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