

January 02, 2024

DP Jain & Co. Infrastructure Pvt Ltd: Ratings downgraded and outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based- CC	122.00	122.00	[ICRA]BBB (Negative); Downgraded from [ICRA]BBB+ (Stable) and outlook revised to Negative from Stable
Long-term – Fund-based- Term Loans	104.52	104.52	[ICRA]BBB (Negative); Downgraded from [ICRA]BBB+ (Stable) and outlook revised to Negative from Stable
Short-term – Non-fund based	230.00	230.00	[ICRA]A3+; Downgraded from [ICRA]A2
Long-term/Short-term – Unallocated	110.36	110.36	[ICRA]BBB (Negative)/ [ICRA]A3+; Downgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2 and outlook revised to Negative from Stable
Total	566.88	566.88	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in ratings of DP Jain & Co. Infrastructure Pvt Ltd (DPJIPL) reflects the increase in leverage in the backdrop of higher-than-expected capital expenditure, and continued reliance on short-term funding to fund its long-term investments, which has resulted in asset-liability mismatch (ALM) and exposes company to refinancing risk. Moreover, the liquidity position remains stretched with almost full utilisation of sanctioned working capital lines. Given increasing scale of operations ICRA estimates revenue of over Rs. 1,400 crore in current fiscal (as compared to Rs. 898 crore in FY2023), timely enhancement of working capital lines remains crucial. The company is in process of monetising some of its operational BOT assets, with management expecting inflows of over Rs. 150 crore by March 2024 and over Rs. 296 crore by March 2025. Timely realisation of asset monetisation proceeds remains crucial for company to correct ALM and improve its liquidity position.

The ratings are also constrained by modest debt coverage indicators with interest cover and DSCR of 2.4 and 1.2 times in FY2023, respectively. The debt-funded capex in FY2023, along with delay in asset monetisation, resulted in a leveraged capital structure with TOL/TNW of 2.3 times as of March 2023 (1.3 times as of March 2022). DPJIPL has sizeable (Rs. 631.57 crore) exposure towards its Group companies against net worth of Rs. 419 crore as of March 2023, pertaining to short-term and medium-term debt. The same exposes it to asset-liability mismatch. Given the incremental equity commitment of Rs. 44 crore (from January 2024 to March 2025) towards the Group's BOT projects, along with substantial debt repayment obligations of Rs. 275 crore over the said period (including ICDs), exposes the company to refinancing risk. However, the risk is mitigated to an extent with the infusion of Rs. 80 crore by the management and expected additional infusion of Rs. 20 crore, in FY2024. ICRA also notes that the order book is concentrated with top three orders as of September 2023 accounting for 80%, of which largest order constitutes a share of 41.6%. The entire order book consists of only road projects, which further accentuates the sectoral concentration risk. The rating is also exposed to execution risks, as about 54% of order book is in the nascent stages of execution (less than 10% complete).

The rating derives strength from the promoters' established operational track record of over two decades in the execution of road projects on engineering, procurement and construction (EPC) as well as build-operate-transfer (BOT) modes. The Group is successfully operating BOT projects for Madhya Pradesh Road Development Corporation Ltd (MPRDC), Karnataka Road Development Corporation Ltd (KRDC), Ministry of Road Transport and Highways (MoRTH) and the National Highway Authority

of India (NHAI). ICRA also draws comfort from DPJPL's track record in successful completion of road projects within the stipulated time. The rating positively factors in the healthy revenue growth over the past five years at a CAGR of 18% to Rs. 898.2 crore in FY2023 from Rs. 468.9 crore in FY2018. ICRA expects the growth momentum to sustain in the near term on the back of order book position of Rs. 3,441 crore as on March 31, 2023. ICRA takes note of the healthy operating margins at above 15% during the past five years owing to benefits from strong operational efficiencies and project execution. With sizeable investments in its own machineries in the recent years and consequently lower sub-contracting expenses, ICRA expects the OPM to sustain at the current level in the medium term.

DPJPL is exposed to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues, and pressure on profit margins. While ICRA notes DPJPL's exposure to sizeable contingent liabilities in the form of bank guarantees, comfort is drawn from its execution track record and absence of invocation of guarantees in the past.

The Negative outlook reflects ICRA's expectation that the company's credit profile is likely to remain under pressure in the medium term, due to stretched liquidity and limited cushion available in working capital facilities.

Key rating drivers and their description

Credit strengths

Established operational track record of promoters in construction industry – With over two decades experience of the promoters in execution of road projects on EPC and BOT modes, the Group has successfully completed 9 BOT projects for reputed clients like MPRDC, KRDC, and MoRTH over the years. The company has reported healthy revenue growth over the past five years at a CAGR of 18% to Rs. 898.2 crore in FY2023 from Rs. 468.9 crore in FY2018, aided by healthy execution of road projects and its strong order book position.

Order book position providing near-term revenue visibility – DPJPL has an order book of Rs. 3,441 crore as on September 30, 2023, i.e., 4.1 times of FY2023 revenue, which provides near-term revenue visibility. The company has an EPC order book of Rs. 2,585 crore as on September 30, 2023. In addition, it has operation and maintenance (O&M) orders worth Rs. 854 crore from its Group SPVs to be executed over 5-20 years.

Credit challenges

Leveraged capital structure – DPJPL, in FY2023, incurred a capital expenditure of Rs. 185 crore against earlier guidance of Rs. 50 crore for which there was an additional term debt of Rs. 165 crore resulting in deterioration in the capital structure, characterised by TOL/TNW of 2.3 times as of March 2023 (FY2022: 1.3 times). Its financial risk profile has moderated as interest cover and DSCR stood at 2.4 times and 1.2 times in FY2023, respectively. Infusion of ICDs/advances of over Rs. 100 crore from DP Jain SPVs and enhancement in working capital limits in Q4 FY2024 are expected to support its liquidity position to an extent. Timely enhancement of working capital limits or infusion of long-term funds remains crucial from the credit perspective and remains a key rating monitorable.

Stretched liquidity; asset-liability mismatch – The company has a stretched liquidity position with almost full utilisation of working capital limits in the past twelve months ending October 2023. While the bankers have enhanced the limits by Rs. 28 crore in the interim (which is based on the assessment as per audited financials of FY2021), the enhanced limits remain almost fully utilised. ICRA understands from the management that the company is presently in discussion with lenders for enhancement in its fund and non-fund based limits, which it expects to receive within next two months. DPJPL has sizeable (Rs. 631.57 crore) exposure towards its Group companies against net worth of Rs. 419 crore as of March 2023, pertaining to short-term and medium-term debt, which exposes it to asset-liability mismatch. Given the incremental equity commitment of Rs. 44 crore (from January 2024 to March 2025) towards the Group's BOT projects, along with substantial debt repayment obligations of Rs. 275 crore over the said period (including ICDs), the company remains exposed to refinancing risk.

Concentrated order book and execution risks – The company’s order book remains exposed to high segment concentration risks with the order book primarily consisting of road segment works. ICRA notes that the order book is concentrated with top three orders as of September 2023 accounting for 80%, of which one order constitutes a share of 41.6%. The entire order book consists of only road projects, which further accentuates the sectoral concentration risk. The rating is also exposed to execution risks, given that about 53% of order book is in the nascent stages of execution (0-10%) as on September 30, 2023. While ICRA notes DPJPL’s exposure to sizeable contingent liabilities in the form of bank guarantees, comfort is drawn from its execution track record and absence of invocation of guarantees in the past.

Liquidity position: Stretched

DPJPL has a stretched liquidity position with almost full utilisation of working capital limits in the past twelve months ending October 2023, with cash balance of Rs. 10.5 crore as on March 31, 2023. While the bankers have enhanced the limits by Rs. 28 crore in the interim (which is based on the assessment as per audited financials of FY2021), the enhanced limits remain almost fully utilised. Moreover, the expected robust revenue growth target in FY2024 will necessitate additional working capital requirement, and hence its ability to tie up the same in a timely manner would be crucial. The company is relying on extended credit period from its vendors to support its working capital in the interim.

Rating sensitivities

Positive factors – The outlook may be revised to stable upon any long-term fund infusion or asset monetisation resulting in an improvement in asset liability position and liquidity profile on a sustained basis.

Negative factors – Inability to raise long-term funds or monetise investments and correct the asset-liability mismatch, on a sustained basis, could result in a rating downgrade. Delays in tie-up of additional working capital limits, or stretch in the cash conversion cycle, or higher-than-estimated capital expenditure adversely impacting liquidity position or leverage metrics will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated financials of DPJPL with its subsidiaries (Refer Annexure-II). ICRA has followed limited consolidation factoring in the expected funding requirements (equity/ cost overrun support/ operational shortfall) to the SPVs.

About the company

DP Jain & Co. Infrastructure Pvt Ltd (DPJPL) is a part of the DP Jain Group, led by Mr. Deepak Jain and Mr. Girish Jain. Over the years, the company has steadily grown and completed road projects, in both EPC and PPP mode. It is a Class 1A contractor in Maharashtra and is ISO 9001:2015 certified. The company has an established operational track record of over two decades in executing road projects in Karnataka, Madhya Pradesh and Maharashtra. The Group has successfully operated BOT projects for Madhya Pradesh Road Development Corporation Ltd (MPRDC), Karnataka Road Development Corporation Ltd (KRDCL), Ministry of Road Transport and Highways (MoRTH) and the National Highways Authority of India (NHAI).

Key financial indicators (audited)

	FY2022	FY2023
Operating income	662.3	898.2
PAT	33.4	54.8
OPBDIT/OI	17.0%	15.6%
PAT/OI	5.0%	6.1%
Total outside liabilities/Tangible net worth (times)	1.3	2.3
Total debt/OPBDIT (times)	2.9	4.1
Interest coverage (times)	2.5	2.4

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 02,2024	Jan 20, 2023	-	-
1 Fund-based – CC	Long term	122.00	-	[ICRA]BBB(Negative)	[ICRA]BBB+ (Stable)	-	-
2 Fund-based – Term loans	Long term	104.52	84.58	[ICRA]BBB(Negative)	[ICRA]BBB+ (Stable)	-	-
3 Non-fund based	Short term	230.00		[ICRA]A3+	[ICRA]A2	-	-
4 Unallocated	Long term/ Short term	110.36		[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – CC	Simple
Long-term – Fund-based – Term loans	Simple
Short-term – Non-fund based	Very Simple
Long-term/Short-term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – CC	NA	NA	NA	122.00	[ICRA]BBB(Negative)
NA	Long-term – Fund-based – Term loans	FY2019	NA	FY2026	104.52	[ICRA]BBB(Negative)
NA	Short-term – Non-fund based	NA	NA	NA	230.00	[ICRA]A3+
NA	Long-term/Short-term – Unallocated	NA	NA	NA	110.36	[ICRA]BBB (Negative)/ [ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
DP Jain Datia-Bhander Toll Road Projects Pvt. Ltd.	100%	Limited
DP Jain Ujjain Package (Annuity) Road Projects Pvt. Ltd.	100%	Limited
DP Jain Dariapur-Jasondhi (Annuity) Road Projects Pvt. Ltd.	100%	Limited
Dinara Datia DPJ-Pathways Pvt. Ltd.	51%	Limited
DP Jain (Nagada Gogapur) BOT Annuity Road Projects Pvt. Ltd.	100%	Limited
DPJ DRA Tollways Pvt. Ltd.	98%	Limited
DPJ Bidar-Chincholi Annuity Road Project Pvt. Ltd.	100%	Limited
D P Jain TOT Toll Roads Pvt. Ltd.	100%	Limited
Ghorad Seloo HAM Road Project Private Limited	60%	Limited
DPJ Pollachi HAM Project Pvt. Ltd.	100%	Limited
D P Jain Bangalore-Chennai Expressways Private Limited	100%	Limited

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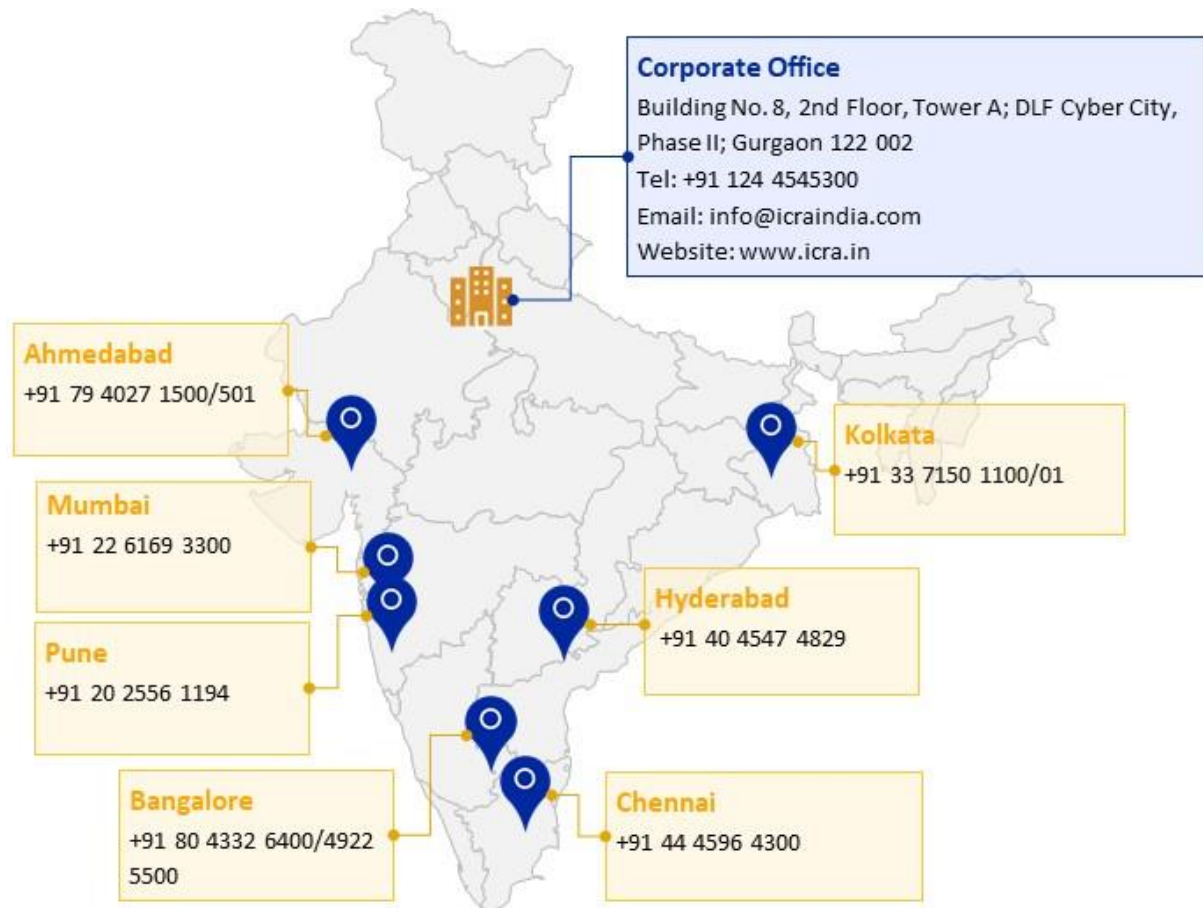
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