April 01, 2022

# Darpan Infrastructure Private Limited: Long-term rating downgraded; short-term rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based Term Loan | 0.39 | 0.39 | [ICRA]BB-(Stable); downgraded from [ICRA]BB(Stable) |
| Fund-based Working Capital Term Loan | 2.16 | 2.16 | [ICRA]BB-(Stable); downgraded from [ICRA]BB(Stable) |
| Fund-based Cash Credit | 7.00 | 7.00 | [ICRA]BB-(Stable); downgraded from [ICRA]BB (Stable) |
| Non-fund Based Bank Guarantee | 2.25 | 2.25 | [ICRA]A4; reaffirmed |
| Unallocated Limits | 0.01 | 0.01 | [ICRA]BB-(Stable); downgraded from [ICRA]BB (Stable)/[ICRA]A4; reaffirmed |
| **Total** | **11.81** | **11.81** | |

**Instrument details are provided in Annexure-1*

## Rationale

The revision in Darpan Infrastructure Private Limited's (DIPL/ the company) long-term rating factors in the sizeable increase in its contingent liabilities due to the corporate guarantee (CG) of Rs. 45.6 crore extended to its Group company - Anawil Wire and Engineering Private Limited - for undertaking a greenfield capex. The CG remains almost 2.4 times of DIPL's FY2022 TNW and the crystallisation of the same may adversely impact DIPL's liquidity position. The ratings also consider DIPL's weak order book of Rs. 48.1 crore (~0.6 times of FY2021 revenue) as of February 2022, which constrains revenue visibility. However, the company has bids in the pipeline, the award of which will support its growth.

The ratings are also constrained by the company's modest scale of operations reflected in its revenue of Rs. 76.2 crore in FY2021 and leveraged capital structure with gearing of 1.6 times and TOL/TNW of 2.6 times in FY2021. ICRA also notes that the business remains working capital-intensive in nature with NWC/OI of 16.4% in FY2021. Further, DIPL's profitability remains vulnerable to the fluctuations in raw material prices and intense competition from unorganised players in the anti-corrosive coating industry.

The ratings, however, continue to take comfort from the extensive experience of DIPL's promoters in the anti-corrosive coating business and reputed clientele such as Larsen & Toubro Limited rated {[ICRA]AAA (Stable) and [ICRA]A1+} Jindal Saw Limited. Further, the company has executed orders across various locations in India, including Gujarat, Madhya Pradesh, Rajasthan and Karnataka.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that DIPL will continue to benefit from the extensive experience of its promoters in the anti-corrosive coating business.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters** – The key promoter, Mr. Nimesh Vashi (Director), has an experience of over two decades in the anti-corrosive coating business. The company's long operational track record and established relationships with reputed customers helps garner repeat orders.

**Reputed client base** – The company's customer profile consists of reputed private companies such as Larsen & Toubro Limited (rated [ICRA]AAA (Stable) and [ICRA]A1+), Jindal Saw Limited and Welspun Corp Limited, signifying low counterparty credit risk. Further, DIPL has executed orders across various locations in India, including Gujarat, Madhya Pradesh, Rajasthan and Karnataka.

## Credit challenges

**Leveraged capital structure; sizeable contingent liabilities extended to Group companies** – DIPL had low net worth bases (Rs. 15 crore as on March 31, 2021), resulting in a leveraged capital structure, as reflected in the gearing of 1.6 times and TOL/TNW of 2.6 times as on March 31, 2021. In FY2022, the company extended a corporate guarantee of Rs. 45.6 crore to banks for a loan taken by its Group entity – Anawil Wire and Engineering Private Limited – for undertaking a greenfield capex. The corporate guarantee remains almost 2.4 times of DIPL's FY2022 TNW and the crystallisation of the same may adversely impact the company's liquidity position.

**Modest scale of operations; weak order book** – The company's operations remain moderate, evident from its revenue of Rs. 76.2 crore in FY2021 and Rs. 61.8 crore (provisional unaudited) in 11M FY2022. DIPL has total pending work order of Rs. 48.1 crore (~0.6 times of FY2021 revenue) as of February 2022, constraining revenue visibility. However, the company has bids in the pipeline, the award of which will support its growth.

**High working capital intensity** – The company's business remains working capital-intensive, as reflected in its NWC/OI of ~16.4% in FY2021, due to high receivables (~76 days in FY2021).

**Vulnerability of profitability to fluctuations in raw material prices and intense competition** – The company's profit margins are primarily affected by the fluctuations in the prices of major raw material such as sand, cement, well mesh and other aggregates, though the principal contractor provides the MS pipes. This risk is mitigated to a certain extent by the price-escalation clauses in some work orders. DIPL also faces stiff competition from numerous unorganised players in the anti-corrosive coating industry.

## Liquidity position: Stretched

The company's liquidity position is stretched, evident from the working capital utilisation of 70% of the sanctioned limits in the past 12-month period ended February 2022. However, the absence of any major capex plans and modest debt repayment provides comfort. The crystallisation of DIPL's contingent liabilities or any support to its Group company could adversely impact its liquidity position and remains a key monitorable.

## Rating sensitivities

**Positive factors –** ICRA could upgrade DIPL's ratings if there is any sustained improvement in its scale and profitability along with a substantial improvement in net worth and liquidity.

**Negative factors -** Pressure on the ratings may arise if DIPL's scale of operations declines due to significant delays in execution and/or inability to get new orders, which will adversely impact its scale, profitability and liquidity position. Further, any devolvement of the corporate guarantee or incremental support to a Group company, which materially impacts the company's liquidity position, will be credit negative.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the standalone financial profile of the company |

## About the company

Darpan Infrastructure Private Limited (DIPL) is involved in sand blasting, guniting and anti-corrosive coating of water pipelines and wind-tower projects. The company started as a proprietorship firm in 1997 before being converted into a private limited company in 2006. It also does fabrication and civil works related to its core operation. The key promoters, Mr. Nimish Vashi and Mr. Bhavin Desai, manage the company's operations.

Anawil Wire and Engineering Private Limited, DIPL's Group company, was incorporated on January 2, 2021. The company has started the manufacture of well mesh and is setting up a plant to manufacture heavy fabrication metal parts, which will be used in railway, metro, bridges, dams, turbines, windmill towers, etc. The total project cost is around Rs. 64.9 crore, out of which a bank loan of Rs. 44.6 crore has been sanctioned, and the rest will be funded by the promoters.

## Key financial indicators (audited)

| | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 66.3 | 76.2 |
| PAT (Rs. crore) | 2.7 | 3.5 |
| OPBDIT/OI (%) | 9.3% | 10.8% |
| PAT/OI (%) | 4.1% | 4.5% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.1 | 2.6 |
| Total Debt/OPBDIT (times) | 2.8 | 2.9 |
| Interest Coverage (times) | 3.4 | 3.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on March 31, 2021 (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | April 1, 2022 | - | Jan 07, 2021 | Jul 04, 2019 |
| 1 | Term Loan | Long Term | 0.39 | 0.23 | [ICRA]BB-(Stable) | - | [ICRA]BB(Stable) | [ICRA]BB-(Stable) |
| 2 | Working Capital Term Loan | Long Term | 2.16 | - | [ICRA]BB-(Stable) | - | [ICRA]BB(Stable) | - |
| 3 | Cash Credit | Long Term | 7.0 | - | [ICRA]BB-(Stable) | - | [ICRA]BB(Stable) | [ICRA]BB-(Stable) |
| 4 | Bank Guarantee | Short Term | 2.25 | - | [ICRA]A4 | - | [ICRA]A4 | [ICRA]A4 |
| 5 | Unallocated Limits | Long Term/ Short Term | 0.01 | - | [ICRA]BB-(Stable)/ [ICRA]A4 | - | [ICRA]BB(Stable)/ [ICRA]A4 | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Term Loan | Simple |
| Working Capital Term Loan | Simple |
| Cash Credit | Simple |
| Bank Guarantee | Very Simple |
| Unallocated Limits | NA |

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: www.icra.in

## Annexure-1: Instrument details

| ISIN No. | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loan | FY2019 | NA | FY2024 | **0.39** | **[ICRA]BB-(Stable)** |
| NA | Working Capital Term Loan | FY2021 | NA | FY2025 | **2.16** | **[ICRA]BB-(Stable)** |
| NA | Cash Credit | NA | NA | NA | **7.00** | **[ICRA]BB-(Stable)** |
| NA | Bank Guarantee | NA | NA | NA | **2.25** | **[ICRA]A4** |
| NA | Unallocated Limits | NA | NA | NA | **0.01** | **[ICRA]BB-(Stable)/ [ICRA]A4** |

***Source:*** *Darpan Infrastructure Private Limited*

***Please click here to view details of lender-wise facilities rated by ICRA***

## Annexure-2: List of entities considered for consolidated analysis – Not Applicable

## ANALYST CONTACTS

**Rajeshwar Burla**
+91 40 4067 6527
rajeshwar.burla@icraindia.com

**Ashish Modani**
+91 22 6114 3414
ashish.modani@icraindia.com

**Mayank Agrawal**
+91 79 4027 1514
mayank.agrawal@icraindia.com

**Soumantak Bagchi**
+91 98 3086 1414
soumantak.bagchi@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

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## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches




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