



**DILIP BUILDCON LIMITED**  
INFRASTRUCTURE & BEYOND

September 02, 2022

To

**National Stock Exchange of India Ltd.**  
Exchange Plaza, C-1, Block G,  
Bandra Kurla Complex,  
Bandra (E)  
Mumbai - 400 051

Scrip Code - DBL

**Sub: Your email dated September 01, 2022 about Credit Rating.**

**Ref: Corporate announcement made by the Company on August 30, 2022 related to Credit Rating given by "India Ratings" for the Bank Facilities.**

Dear Sir,

With reference to your email dated September 01, 2022, please find enclosed the rationale of credit rating as desired by you.

We hereby request you to take the above information on your record.

**For Dilip Buildcon Limited**

**Abhishek Shrivastava**  
Company Secretary  
Encl: Rationale letter



ISO 9001:2015  
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## India Ratings Downgrades Dilip Buildcon to 'IND A'; Outlook Negative

Aug 29, 2022 | Construction

India Ratings and Research (Ind-Ra) has downgraded Dilip Buildcon Limited's (DBL) Long-Term Issuer Rating to 'IND A' from 'IND A+' with a Negative Outlook. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR17,931	IND A/Negative/IND A1	Long-term rating downgraded; short-term rating affirmed
Non-fund-based limits	-	-	-	INR33,019	IND A/Negative/IND A1	Long-term rating downgraded; short-term rating affirmed

**Analytical Approach:** To arrive at the ratings, Ind-Ra continues to consider DBL's standalone financials while adjusting the outstanding debt of those special purpose vehicles for which a corporate guarantee (CG) has been provided by the company. The agency also continues to factor in the equity commitments of DBL's under-construction hybrid annuity model (HAM)-based projects and mine developer & operator projects. The agency has also factored in the removal of CG for the assets whose divesture has been completed and additional CG provided to the debt raised at DBL Infra Assets Private Limited (DIAPL; 100% subsidiary of DBL) to assess the overall adjusted debt levels. However, CGs provided to

DIAPL will fall off progressively upon achievement of commercial operations date of the respective underlying assets.

The downgrade reflects DBL's higher leverage ratio and lower interest coverage ratio than Ind-Ra's FY22 expectations, and significant working capital lock-up. The Negative Outlook reflects the agency's expectation of the credit metrics remaining moderate over the near to-medium term, affected by the levered capital structure, coupled with an increasing working capital cycle. The Negative Outlook also reflects the company's vulnerability to the risks associated with the delayed receipt of monetisation proceeds, delayed recovery of the profitability margins and receipt of various project-related approvals leading to time overruns in yet-to-start projects as of end-March 2022.

Furthermore, there is no major development around the Central Bureau of Investigation's visit to DBL's premises and the residence of its executive director in Bhopal on 31 December 2021. DBL in its public disclosure to the stock exchanges had refuted all the charges and stated that the company's executive director had been released from the custody of the investigating agency vide order dated 7 January 2022. Ind-Ra will continue to monitor developments around the case and its impact on the credit risk profile of DBL.

## Key Rating Drivers

**Elevated Commodity Prices to Impact Medium-term Credit Profile:** DBL's EBITDA margin had remained largely stable in the range of 17.5%-18% over FY18-FY20; however, it declined to 16.0% in FY21 due to COVID-19 related expenses and the increase in commodity prices. The margin declined further in 1QFY23 to 7.8% (FY22: 8.4%), because of the continuous rise in the commodity prices, of which 30%-40% of these could not be passed on to customers and were classified as fixed overheads. The drop in margins have been accentuated by the rise in fuel prices especially bitumen and poor execution across other business segments such as irrigation which have been impacted by the extended monsoons. Ind-Ra expects the margins to be in the range of 9%-11% in FY23 with recovery from 3QFY23.

DBL's net leverage (total standalone debt less unrestricted cash/EBITDA) deteriorated to 4.1x in FY22 (FY21: 2.3x). The net adjusted leverage (total standalone debt plus corporate guarantees outstanding less unrestricted cash/EBITDA) also deteriorated to 5.8x in FY22 (FY21: 3x) and the interest coverage (EBITDA/gross interest expenses) declined to 1.2x (2.5x) partly on account of the reduced profitability and increased interest expenses. However, with the release of corporate guarantees from the completed projects in FY23, Ind-Ra expects the net leverage to improve in FY23.

The net working capital cycle (including unbilled revenue and mobilisation advances) increased to 130 days in FY22 (FY21: 106 days), primarily due to an increase in the unbilled revenue as a percentage of revenue to 12.2% (6.4%) due to the pending certification of works predominantly from NHAI. Ind-Ra expects the unbilled revenues to recover by end-December 2022, resulting in significant release of the working capital lock-up. Any delay in the recovery or increase in the unbilled revenue shall impact the overall liquidity position of the company in short-medium term.

**Liquidity Indicator - Adequate:** DBL utilised 89% of its INR24,648 million fund-based limits for the 12 month period ended June 2022. At end-June 2022, DBL had unrestricted cash and cash equivalents of about INR300 million. The company has a sizeable debt repayment of INR4.96 billion spread across 2QFY23, 3QFY23 and 4QFY23, and an estimated equity commitment obligation of INR10 billion during the same period, which are to be met through internal accruals & monetisation proceeds. The agency takes comfort from the demonstrated track record of divestment of portfolio assets, which are nearing completion. The company has received approval from Competition Commission of India for the sale of 10 HAM assets to Shrem InvIT ('IND AAA'/Stable) for a total sale consideration of INR23.5 billion, to be paid out in the form of cash (INR6.16 billion) and InvIT units (INR17.3 billion).

DBL's cash flow from operations reduced to negative INR5.8 billion in FY22 (FY21: INR1.4 billion, FY20: INR12.7 billion), owing to a significant increase in the working capital lockup. However, the company has been able to achieve a free cash flow of negative INR1.5 billion (negative INR .9 billion, INR4.5 billion) due to an inflow of INR7.5 billion proceeds from sale of HAM assets. Furthermore, no major capex is envisaged by DBL in the remainder of FY23 and FY24. Any delay in the receipt of monetisation proceeds or an increase in the working capital lock-up shall impact the overall liquidity profile.

**Sluggish FY22; Revenue Trajectory Likely to Improve from FY23:** DBL's revenue grew at a CAGR of 36.5% over FY15-FY19. However, the revenue growth was impacted in FY20-FY21, due to sector-specific issues such as general elections, unseasonal rainfalls and COVID-19 pandemic. DBL's revenue fell 2.2% yoy to INR90,061 million in FY22. The project execution (revenue) has been impacted continually across all the three quarters i.e. 1QFY22 (INR21,463 million), 2QFY22 (INR21,561 million) and 3QFY22 (INR21,976 million). During 1QFY23, the company achieved revenue of INR26.2 billion with EBITDA margin of 7.8% (1QFY22: 13.2%).

The margins still reel under pressure pertaining to the execution of projects awarded in FY19-FY20. Those projects having received extension of timelines could be executed largely by end-1HFY23. Material costs for these projects are covered only up to 65% under the price variation clauses which are linked to Wholesale Price Index. However, as DBL does not sub-contract engineering, procurement and construction activities, the fixed costs pertaining to these projects continue to impact the margins. With Ind-Ra's expectation of revenue growth of 8%-10% yoy in FY23 based on the company's strong execution capability coupled with the strong closing order book, the EBITDA may continue to reel under some pressure in FY23 till the commodity prices witness a correction and the complete execution of the projects won during FY19-FY20. Furthermore, with respect to all the other HAM projects, the early completion bonus will not be available in the near-medium term due to the receipt of extension of time by project awarding authorities.

**Timely Monetisation of Assets Key for Funding Equity Commitments:** The company is executing 25 HAM projects, along with a couple of coal projects, which entail an estimated total equity commitment of INR10 billion in FY23 (July 2022-March 2023), INR4.5 billion in FY24 and INR3.1 billion in FY25.

During 4QFY22, DBL executed definitive agreements along with DIAPL for the transfer of stake in 10 HAM projects to Shrem InvIT. The 10 projects are expected by the management to be flipped (sold and transferred) to Shrem InvIT at a divestment value of INR23.5 billion (INR6.16 billion in cash, INR17.3 billion in InvIT units). As per DBL's management, the flipping activity is expected to be completed by end-FY23, subject to the completion of all projects. Out of the cash component of total sale consideration, DBL has already received INR4,500 million in 4QFY22. INR250 million was released in 1QFY23, and INR500 million has been released in July 2022, and the balance amount (INR910 million) is expected before or at the time of flipping of the first set of four/five assets based on the availability of cashflows with Shrem InvIT. InvIT units shall be transferred based on the value of the assets flipped; around 40% of InvIT units expected in 2QFY23, 46% in 3QFY23 and the remaining in 4QFY23 on the flipping of assets to Shrem InvIT. Necessary approvals from NHA and project lenders are under process for the assets to be flipped to Shrem InvIT.

At end-July 2022, the divestment of three HAM assets to Cube Highways and Infrastructure III Pte Limited was completed at a valuation of INR4.4 billion (1.46x valuation). Till FY22, proceeds of INR2.92 billion have been received. Remaining proceeds have been received during 1QFY23 and July 2022.

Furthermore, the undrawn limit of INR2.9 billion from DIAPL will provide cushion to the equity commitment requirements. DBL had raised INR5.1 billion through a qualified institutional placement in FY22 and can raise additional capital, if such a need arises. Thus, timely realisation of sale proceeds and divestments remain key rating monitorables.

**Strong-but-moderately Concentrated Order Book:** DBL had a strong order book of INR273 billion at end-July 2022 (1QFY23: INR252 billion; FY22: INR256 billion; FYE21: INR274 billion), which provides 3x revenue visibility basis FY22 revenue. The order book at end-1QFY23 had strong counterparties, as 78% of the orders are from central government authorities such as the National Highways Authority of India ('IND AAA'/Stable; NHA), Ministry of Road Transport and Highways, Northern Coalfields Limited, Mahanadi Coalfields Limited, among others, which aid payment security.

However, the existing order book at end-1QFY23 was moderately concentrated, given 51% of the projects are from the roads, bridges and highways segment (FY22: 47%; FY21: 58%), 17% from the irrigation segment (15.9%, 17.0%), 22% from mining segment (21%, 15%), while the balance 10% are spread across the tunnelling, elevated metro, and airport segments (10%, 10%). During April-July 2022, the company has been able to win orders of INR60.9 billion diversified

across roads (INR29.4 billion), metros (INR10.6 billion) and irrigation (INR14 billion).

While DBL is geographically diversified by executing orders in 16 states (including union territories), the top five states contribute nearly 67% to the order book, of which 18% are from Jharkhand, 14% from Karnataka, 14% from Gujarat, 13% from Madhya Pradesh and 8% from Odisha. Also, moderate project concentration emanates from the top 10 projects comprising 56% of the total order book.

## Rating Sensitivities

**Outlook Revision to Stable:** A standalone net leverage below 2.0x or net adjusted leverage below 4.0x, or a combination of both, on a sustained basis, would result in a revision of the Outlook to Stable.

**Negative:** Any delay in the receipt of monetisation proceeds from asset sale activities or lower profitability or a longer working capital cycle, resulting in standalone net leverage sustaining above 2.5x or net adjusted leverage above 4.5x or a combination of both, on a sustained basis, would be negative for the ratings.

## Company Profile

Incorporated in 2006 as a private limited company, Bhopal-based DBL is a leading engineering, procurement and construction contractor in the country, engaged in construction of roads, bridges & highways, mining activities, irrigation, airports and metro projects. In August 2010, DBL was reconstituted as a closely-held public limited company.

### FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR billion)	90.1	92.1
EBITDA (INR billion)	7.5	14.7
EBITDA margin (%)	8.4	16.0
Total standalone debt (INR billion)	31.0	34.3
Interest coverage (x)	1.3	2.5
Net adjusted leverage (including CGs)	5.8	3.0
Net leverage (x)	4.1	2.3
Source: DBL, Ind-Ra		

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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