

Dhansar Engineering Company Private Limited

May 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BBB; Stable; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable, ISSUER NOT COOPERATING [Triple B; Outlook: Stable, Issuer Not Cooperating] assigned to the bank facilities of Dhansar Engineering Company Private Limited (DECPL) with immediate effect. The above action has been taken at the request of DECPL and 'No Objection Certificate' received from the lenders that have extended the facilities rated by CARE.

DECPL has not provided information for monitoring of the rating and remained non-cooperative despite requests for submission of information through letter/ e-mail dated February 01, 2021; January 18, 2021 & January 11, 2021. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

Detailed description of the key rating drivers

At the time of last rating on March 24, 2021 the following were the rating strengths and weaknesses.

Key Rating Strengths

Experienced promoters with long track record of operation

The company is managed by Mr Manoj Agarwalla, Chairman, who has an experience of more than 25 years in the mining activities. He looks after the day-to-day operations of the company along with the support of his son, Mr Harsh Agarwalla, who looks after the finance function of the company.

Significant fleet of owned heavy equipment

The company has established a large fleet of heavy equipment and vehicles with more than 650 owned heavy equipment/ vehicles (including dozers, dumpers, excavators and trailers). For contracts which are not further subcontracted, most of DECPL's heavy equipment requirement is met in-house.

Healthy order book position with significant increase in orders in YTFY20

DECPL's order book significantly increased from Rs.1,854 crore as on December 31, 2018 to Rs.5371 crore as on December 31, 2019 representing 7.45x of the net billing of FY19. Of the orders outstanding as on December 31, 2019, order amounting to Rs.4305.79 crore pertained to orders secured during YTFY20. The increase was largely on account of receipt of one big long-term order of 20 years for stone mining.

Reputed clientele albeit client concentration risk

DECPL's order book comprises of distinguished clients in their respective line of business which usually ensures timely receipt of receivable and also reduces counterparty credit risks. The company has established strong relationship with its clients and has been able to get repeat orders from its clients indicating satisfactory project execution capabilities. However, the company is exposed to client concentration risk, with top five clients contributing to 69% of the revenue in FY19 and considering the current order book, the same trend is expected to follow going forward.

Satisfactory financial performance in FY19 albeit marginal moderation in turnover in 9MFY20, however strong order book ensuring revenue visibility

DECPL reported a total operating income (TOI) of Rs.723 crore in FY19 (PY: Rs.707 crore) with income from mining services being in line with that in FY18. The PBILDT margin deteriorated from 11.89% in FY18 to 10.73% in FY19 due to increase in consumption of stores and spares and on account of increase cost of power and fuel. Interest coverage improved from 5.39x

in FY18 to 6.55x due to decrease in interest costs. The company has also reported increase in non-operating income, mainly arising out of profit on sale of heavy earth moving equipment, which aided y-o-y PBT growth. In 9MFY20, on account of completion of some of the contracts during the earlier part of the financial year, coupled with new orders starting only from Q4FY20, the TOI decreased y-o-y by 12% to Rs.463 crore. However, same is expected to increase going forward with the execution of the new orders. Moreover, on account of improvement in PBILDT margin from 10.33% in 9MFY19 to 12.29% in 9MFY20, the PBILDT level in 9MFY20 remained in line with that in 9MFY19. In FY20, the company has reported decline in TOI by 14% to Rs 617.17 crore. However, the PBILDT margins has improved to 14.55%. Further, the company has availed moratorium and Covid Emergency Credit Line from some of its lenders.

Satisfactory capital structure

The capital structure continued to be satisfactory with overall gearing of 0.70x as on Mar'19 (0.72x as on Mar'18) and Total Debt/GCA of 2.08x in FY19 (2.01x in FY18). Overall gearing and total debt/ GCA stood at 0.82x and 2.70x respectively as on December 31, 2019. In FY20, overall gearing has deteriorated to 0.93x as on March 31, 2020 on account of increase in total debt levels in FY20 vis-à-vis FY19. TD/GCA continued to remain at similar level while Interest coverage ratio declined from 6.55x in FY19 to 5.88x in FY20.

Key Rating Weaknesses

Risk of delay in project execution

DECPL's business is susceptible to financial loss arising out of delay in project execution or inferior performance as generally there are penalty clauses for extraction of minerals below the agreed minimum level of quantity. However, the company has not borne any penalty amount in the past four years.

Tender based nature of operations

In case of contracts with PSUs, the company has to participate in tenders for the contracts. This exposes the revenue generation capabilities to successful bidding and acquiring tenders. In addition, with the coal mining space in particular becoming more competitive bargaining power and pricing flexibility is limited.

Profitability susceptible to volatility in input prices

DECPL contracts mainly comprise income from excavation and evacuation services which are based on per tonne of coal excavated/evacuated and run over the period of contract. The major costs for such services are the hire charges for equipment followed by diesel cost for plying the equipment, and labour. However, the company has an escalation clause in most of its contract to pass on the increase in diesel and labour cost to some extent, which reduces the risk of volatility of diesel & labour cost to a certain extent.

Capital intensive nature of business

The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc) for replacement purpose.

Regulatory risk in the mining industry

The Indian mining industry is regulated by the Government of India and thus DECPL is exposed to the risk attached to ban on mining activities of its client due to sudden change in government policy.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook & Credit watch to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology -Service Sector Companies](#)

About the Company

Dhansar Engineering Company Private Ltd. (DECPL), incorporated in 1955, was promoted by Late Mr. Basant Kumar Agarwalla of Dhanbad, Jharkand. DECPL started civil construction activities in 1998 and from 2003 onwards, the company forayed into support services of mining (coal, iron ore, bauxite, zinc and chromite ore) activities such as removal of over burden, drilling & blasting, extraction of mineral, transportation to railway siding, site levelling, etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	723.67	617.17
PBILDT	77.65	89.80
PAT	24.71	23.09
Overall Gearing (times)	0.70	0.93
Interest coverage (times)	6.55	5.88

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (24-Mar-21)	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (04-Apr-19)	1)CARE BBB+; Stable (06-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (24-Mar-21)	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (04-Apr-19)	1)CARE BBB+; Stable (06-Apr-18)
3.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (24-Mar-21)	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (04-Apr-19)	1)CARE BBB+; Stable (06-Apr-18)

Annexure-3: Complexity level of various instruments rated for this company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT-Bank Guarantees	Simple

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.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name- Anil More

Group Head Contact no.- 033-4018 1623

Group Head Email ID- anil.more@careratings.com

Relationship Contact

Name- Lalit Sikaria

Contact no.- 033- 4018 1607

Email ID- lalit.sikaria@careratings.com

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.

Disclaimer

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