Dinesh Engineers Limited

March 11, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	89.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)	Reaffirmed
Short Term Bank Facilities	65.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	**154.00 (Rs. One Hundred Fifty-Four Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Dinesh Engineers Limited (DEL) is on account of experience and expertise of the promoter along with company's demonstrated track record in executing projects related to laying of underground optical fibre cables (OFC) which form integral part of telecom infrastructure. The ratings continue to derive strength from robust growth in operating performance coupled with healthy profitability margins, good growth prospects on account of healthy order book position, as well as comfortable capital structure and debt coverage indicators.

The rating strengths are however, tempered with execution risks associated with projects with respect to timely receipt of approvals to carry out work, working capital intensive nature of operations due to long receivables cycle, and high exposure to telecom industry with customer concentration risk.

Rating Sensitivities

Positive rating sensitivities

- Growth in sales to over Rs. 450 crores while maintaining profitability margins at 25% on a sustained basis
- Decrease in operating cycle days below 90 days (including unbilled revenue) on sustained basis

Negative rating sensitivities

- Increase in overall gearing beyond 1.0x on continued basis
- Decrease in cash flow from operating activities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record

DEL is headed by Mr Dinesh Kargal and is the promoter and Managing Director of DEL. He is a civil engineer by profession and has an overall experience of over 3 decades in the field of civil construction and Telecom infrastructure sector. His wife, Mrs. Shashikala Kargal, is the other promoter and has 23 years of experience in the telecom infrastructure industry. DEL completed laying of around 20000 km of optical fibre for its telecom vendors and has same kilo meters of its own IP-1 infrastructure network. The promoters are supported by experienced and competent management team.

Prospects for healthy growth and profitability

DEL derives revenue from its EPC work, leasing of IP-1 infrastructure network, operating and maintenance activity and laying of gas pipelines. DEL registered CAGR of 19.91% in its Total Operating Income (TOI) from FY18 to FY20. TOI for FY21 is Rs. 395.04crores. The decline in revenue was due to the lockdowns imposed by the government to curb the spread of covid-19 which impacted manpower mobilization at working sites. Company's PBILDT margin remained healthy at 25.07% in FY21, mainly on account of high margin leasing business which has higher PBILDT margins.

Healthy order book position ensuring revenue visibility in medium term

Company has orders of Rs.396 crores as on January 31, 2022. These projects are scheduled to get completed in Q4FY22 and Q1FY23. This healthy order book position provides a revenue visibility over the short term.

Comfortable capital structure and liquidity position

Company has comfortable capital structure with net worth of Rs.304crore as on March 31, 2021 as compared to Rs.255 crore as on March 31, 2020. DEL's overall gearing improved to 0.09x as on March 31, 2021 as compared to 0.22x as on March 31, 2020. Company's debt mostly includes working capital borrowings. Also, in telecommunication leasing business model, lease signed are IRU (Indefeasible Right of Use) and DEL receives the entire income from lease rental receipts (for the entire tenure of the lease) upfront, thereby providing liquidity.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Key Rating Weaknesses
Execution risks associated with projects
Laying underground OFC networks as the process is very tedious, involving digging of road, managing heavy machinery, handling labour issues, local issues, traffic issues, incurring huge government charges etc. Generally, in DEL's projects, obtaining RoW (Right of Way) is within their scope of work. DEL is required to provide performance guarantees in favour of the RoW approving authorities. Hence, DEL is exposed to associated project risks. However, there have been no instances of invocation of BG in past. Further, in some routes, political resistance or local resistance may also be quiet stiff which may disrupt work. Focus on O&M is of key importance to ensure that the cables do not get snapped.

Working capital intensive operations with increase in operating cycle
DEL undertakes projects which has gestation period of around 4 to 6 months. Unbilled revenue is factored as receivables and adjusted in collection days. Unbilled revenue for FY21 increased to Rs.240 crore from Rs. 212crore for FY20. Increase in unbilled revenue increased the collection days to 365 days in FY21 as compared to 285 days in FY20. Working capital utilization is low with average utilization of Fund based working capital limits was at 31% during last 9 months ended Dec 2021. DEL also utilizes Bank Guarantee as performance guarantees for its project execution business. Average utilization of Non-Fund limits was 46% during the last 9 months ended Dec 2021.

Exposure to telecom sector with customer concentration risk
DEL majorly caters to the telecom sector and its top customers include telecom players and faces exposure to one particular industry. However, telcos got breather with Supreme court's ruling, allowing telcos to stagger their payments over the next 10 years. Also, according to leasing agreements, DEL receives all the leasing amount in advance for a period of 10-15 years (average leasing period). Thus, the cash flows from the existing leasing agreements are secured.
Company also faces customer concentration risk with top 4 customers contributing 92% of the total sales in FY21. Focus on diversifying its revenue base by adding new revenue streams (viz. manufacturing of OFC, telecom tower business, satellite & radio communication, providing spectrum management solutions etc.) would mitigate risk of overdependence on a single line of business.
Liquidity: adequate
Liquidity is adequate marked by strong accruals against negligible repayment obligations. With a gearing of 0.09 times as of March 31, 2022, the issuer has sufficient gearing headroom, to raise additional debt for capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing companies
Financial ratios: Non-financial sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Dinesh Engineers Limited (DEL) was incorporated in the year 2006 and is headed by Mr. Dinesh Kargal, who is the Chairman and Managing Director of the company. DEL is a Category-I Telecom Infrastructure provider (IP-I) registered with Department of Telecommunications, Government of India. The company is in the business of providing infrastructure to telecom operators and ISPs in India. DEL executes OFC laying projects for telecom companies and ISP's on a turnkey basis. The company also owns optical fibre cable (OFC) network of IP-1 module across different states of India and sells or leases the network to other telecom companies and ISP's. DEL also undertakes the operations & maintenance (O&M) activities for the OFC networks.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(UA)
Total operating income	435.40	395.04	176.34
PBILDT	132.70	99.05	49.58
PAT	73.14	50.52	21.90
Overall gearing (times)	0.23	0.09	NA
Interest coverage (times)	21.74	51.00	NA

A: Audited; UA: Un-audited; NA: not available
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure- 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Sales invoice financing (Short Term)		-	-	-	55.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	3.57	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	77.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	8.43	CARE BBB; Stable / CARE A3+
Fund-based - ST-Bank Overdraft		-	-	-	10.00	CARE A3+

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 - ST-Sales invoice financing (Short Term)	ST	55.00	CARE A3+	1)CARE A3+ (06-Apr-21)	-	1)CARE A3+ (27-Mar-20)	1)CARE A3+ (26-Feb-19) 2)CARE A3+ (03-Jul-18)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	3.57	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable (06-Apr-21)	-	1)CARE BBB; Stable (27-Mar-20)	1)CARE BBB; Stable (26-Feb-19) 2)CARE BBB; Stable (03-Jul-18)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	77.00	CARE BBB; Stable / CARE A3+	1)CARE A3+ (06-Apr-21)	-	1)CARE A3+ (27-Mar-20)	1)CARE A3+ (26-Feb-19) 2)CARE A3+; Stable (03-Jul-18)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	8.43	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (06-Apr-21)	-	1)CARE BBB; Stable / CARE A3+ (27-Mar-20)	1)CARE BBB; Stable / CARE A3+ (26-Feb-19) 2)CARE BBB; Stable / CARE A3+ (03-Jul-18)
5	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A3+	1)CARE A3+ (06-Apr-21)	-	1)CARE A3+ (27-Mar-20)	1)CARE A3+ (26-Feb-19) 2)CARE A3+ (03-Jul-18)

**Long term/ short term*

Annexure-3: Detailed explanation of covenants of the rated facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - ST-Bank Overdraft	Simple
2	Fund-based - ST-Sales invoice financing (Short Term)	Simple

Annexure 5: Bank Lender Details
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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