Dinesh Engineers Limited

April 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3.74	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	101.00 (Enhanced from 65.00)	CARE BBB-; Stable / CARE A3	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE A3+;
Long Term / Short Term Bank Facilities	391.86 (Enhanced from 89.00)	CARE BBB-; Stable / CARE A3	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BBB; Stable / CARE A3+;

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The downgrade of the rating of Dinesh Engineers Limited (DEL) is on account of heightened execution risk of two new large-scale projects that has recently been awarded to the company. The first project (BSNL Tower Project) entails setting up of 1900 towers for BSNL & the second project entails setting up of CGD network for the petroleum and Natural Gas Regulatory Board (PNGRB) in the states of Rajasthan, Uttarakhand & Himachal. Care ratings believes that as this is unrelated diversification for the company and also given that the CGD project is to be implemented in the terrain of Himachal & Uttarakhand, there could be significant risk associated with the implementation of the project. Care Ratings believes that violation of the contract terms could potentially impact the profitability & cashflows of the company.

The rating strengths are experience and expertise of promoters along with company's demonstrated track record in executing projects related to laying of underground optical fibre cables (OFC) which forms integral part of telecom infrastructure, diversified product portfolio of the company catering to the telecom sector which includes end to end optical fibre network roll-out, Operation & Maintenance of OFC Network, IP Infrastructure service provider and dark fiber provider. DEL also undertakes laying of (Medium density polythene) MDPE pipelines, GI & ERW pipelines, installation of Service Regulators, copper piping for providing PNG inside the kitchens of domestic & non-domestic customers of Mahanagar Gas Ltd under their City Gas Distribution Project. 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 moderately comfortable capital structure and debt coverage indicators.

The rating strengths are however, tempered with execution risks associated with new projects involving a material outlay in near term & 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: Factors likely to lead to rating actions:

Positive Factors

- 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 Factors

- Increase in overall gearing beyond 1.0x on continued basis.
- Large increase in working capital requirement leading to substantial decline in cash flow from operating activities.
- Cost/time overrun for BSNL project causing negative impact on the financial profile of DEL.
- Cost/time overrun for the CGD project executed by its subsidiaries causing negative impact on the financial profile of DEL.

Analytical approach: Standalone considering investments in subsidiaries.

The company has 7 subsidiaries as of March 2023. Data Express Private Limited is a wholly owned subsidiary, but the scale of operations is insignificant. DEL has invested in 6 new subsidiaries during FY23. Of which three subsidiaries, DEPL Infra Ltd, DEPL O&M Ltd, DEPL Projects Ltd have been set up for the purpose of focussing of specific area of operations i.e infrastructure activities, O&M activities and projects. The company has also formed three additional subsidiaries for Gasonet (city gas distribution) business, namely Gasonet Services (HP) Limited, Gasonet Services (RJ) Limited and Gasonet Services (UK) Limited. CARE Ratings has factored in the investment that DEL has made in its various subsidiaries, as well as support expected to be provided by DEL to them in the medium term.

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

Outlook: Stable
CARE Edge believes that Dinesh Engineers Limited will continue to benefit from its established market position in providing passive communication infrastructure services and maintain its revenue and profitability. The financial risk profile is expected to remain moderate.

Key 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 from existing OFC business
DEL derives revenue from its EPC work, leasing of IP-1 infrastructure network, operation and maintenance activity and laying of gas pipelines. Total operating income (TOI) for FY22 was Rs. 401 crores & FY23 (Provisional) was Rs. 412 crores. Company's PBILDT margin remained healthy at 30.5% in FY22, mainly on account of high margin leasing business which has higher PBILDT margins. For FY23, based on provisional financials, the company has achieved PBILDT margin of ~33%.

Healthy order book position ensuring revenue visibility in medium term.
Company has orders of Rs.2,277.50 crores on a standalone basis as on March 31, 2023. These projects are scheduled to get completed in FY24 except the Tower Operations & Maintenance project from BSNL of Rs. 232 crores with a term of 5 years. This healthy order book position provides a revenue visibility over the medium term.

Comfortable capital structure and liquidity position
Company has comfortable capital structure with net worth of Rs.373.32 crores as on March 31, 2022, as compared to Rs. 304.17 crores as on March 31, 2021. DEL's overall gearing was at 0.29x as on March 31, 2022, as compared to 0.23x as on March 31, 2021. DEL's debt mostly comprises of working capital borrowings. Also, in telecommunication leasing business model, lease agreements signed are IRU (Indefeasible Right of Use) with a period of 15 years and DEL receives the entire income from lease rental receipts (for the entire tenure of the lease) upfront, thereby providing liquidity. This also helps to lower the working capital requirement of the company, which otherwise is significant. Upfront lease collected from clients also helps to fund capital expenditure in new projects, thereby reducing the reliance on term debt for the same.

Key Weaknesses:

Execution risks associated with OFC related projects.
The process of laying underground OFC networks is very tedious, involving digging of roads, managing heavy machinery, handling labour issues, local issues, traffic issues, incurring large 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 quite stiff which may disrupt work. Focus on O&M is of key importance to minimise disruptions in the services provided by telecom operators.

Risks related to new contracts from BSNL and PNGRB
The company has bagged a significant contract for erecting ground-based telecom towers (1912 towers), and subsequent O&M for 5 years. The project would be funded by the Universal Service Obligation Fund (USOF), which is a Rs 55,000 crore strong cash reserve meant to offer mobile connectivity services in rural and remote areas. The project is monitored by DOT, and is being implemented through BSNL. The total cost of the tower project is Rs. 1425 crore to be executed by FY24. Operation & Maintenance (O&M) of Rs. 465 crore is to be booked over 5 years as per the order book. The project will be funded by advances received from BSNL. The total performance bank guarantee is estimated at Rs. 55 crore and financial/advance payment guarantee is estimated at Rs. 203 crores. The execution risks remain as the project is in initial stage. The size of the project is significant and financial closure (in terms of sanction of bank guarantee facility) is not achieved. The company has already received clearance for 70% of Right of Way (ROW) and has hired experienced resources from Indus Tower, ATC Ltd, Airtel who have already executed similar tower projects. The site will be provided by BSNL on which the tower foundation, power infra commissioning, installation & supply work will be executed by DEL. BSNL will provide sites to DEPL only

after having valid and proper ROW permission. The company claims that they have already executed the work at 80 tower sites out of 1912 tower sites.
With regard to the city gas distribution (CGD) business, the company has created 3 SPVs and has successfully won tenders for setting up CGD networks in 3 states. The SPVs got qualified under 11th Round Bidding of Petroleum and Natural Regulatory Board ("PNGRB") and were awarded with the exclusive Authorization for conducting City Gas Distribution Business in the following Geographical Areas (GA).

GA Name	State	Company Formed
Mandi, Kullu, Kinnaur and Lahaul & Spiti districts	Himachal Pradesh	Gasonet Services (HP) Ltd
Bikaner and Churu districts	Rajasthan	Gasonet Services (RJ) Ltd
Pauri Garhwal, Uttarkashi, Rudraprayag and Tehri Garhwal districts	Uttarakhand	Gasonet Services (UK) Ltd
Pithoragarh, Champawat, Almora, Chamoli and Bageshwar districts	Uttarakhand	Gasonet Services (UK) Ltd

Dinesh Engineers Ltd has 76% shareholding in each SPV, while 13% is held by Resonance Energy Pvt Ltd (REPL) and remaining 11% is held by Tolani Projects Pvt Ltd (TPPL). The total funding requirement of the project in the next 5 years is estimated at Rs. 850 crores (FY24-FY29). It is proposed to be funded partly by debt & partly by internal accruals. CARE Ratings believes that being an unrelated diversification for DEL and given the hilly terrain in which the infrastructure has to be set up, there could be challenges in implementation. CARE Ratings opines that any cash flow mismatches faced by SPVs on account of the same would have to be funded by DEL.

Working capital intensive operations with increase in operating cycle
DEL undertakes projects which has gestation period of around 4 to 6 months. The debtor's days (including unbilled revenue) remained stretched at 413 days in FY23 (Prov) as compared to 376 days in FY22. The Gross Current Asset days remained further stretched at 691 days in FY23(PY 507 days) on account of high unbilled revenues and high inventory. Unbilled revenue for FY22 was 237 crores as compared to 240 crores in FY21 (208 crores in FY20). CARE Ratings notes that this is partly attributed to higher level of execution and billing towards the year end. DEL utilizes performance bank guarantees for its project execution business. Average utilization of non-fund limits was high at around 80% during the last 12 months ended Feb 2023.

Exposure to telecom sector with customer concentration risk
DEL till date has majorly catered to the telecom sector and its top customers include telecom players and hence DEL faces exposure to one particular industry. At present most telecom operators are facing stress on account of large Adjusted Gross Revenue (AGR) based license fee payable to the government. Company also faces customer concentration risk with top 5 customers contributing around 85% of the total sales in FY22 & FY23.

Raw Material Price Fluctuation risk
Main raw material for the company is optical fibres. Company is exposed to risk of volatility & any sharp decline in the input prices if the contracts are fixed price contracts with no escalation clause. DEPL is also exposed to steel price volatility in case of the BSNL Tower project, which is fixed price in nature.

Susceptibility to intense competition and cyclicality inherent in the telecom infra industry
Revenue remains susceptible to economic cycles that impact the telecom infra industry. Furthermore, the company mainly caters to telecom operators, infra providers, service providers and the government. The telecom infra segment is highly fragmented; the consequent intense competitive pressure and tender-based nature of business may continue to constrain scalability, pricing power and profitability.

Liquidity: Adequate
Liquidity is adequate marked by sizable accruals against negligible repayment obligations. The operations are working capital intensive with gross current asset days of at 692 days in FY23(PY 508 days) on account of high unbilled revenues and debtors. Unbilled revenue for FY22 was 237 crores as compared to 240 crores in FY21 (208 crore in FY20). The company's investments in its subsidiaries & its revenue generation capabilities from the same remains a key monitorable element.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable Criteria:

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
City Gas Distribution
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Other Telecom Services

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	393.23	401.01	412.55
PBILDT	97.24	122.31	136.46
PAT	50.52	68.42	73.74
Overall gearing (times)	0.23	0.29	0.60
Interest coverage (times)	50.07	38.53	19.81

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA
Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: NA
Disclosure of Interest of Managing Director & CEO: NA

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	FY28	3.74	CARE BBB-; Stable
Fund-based - LT/ ST-Bank Overdraft		-	-	-	10.00	CARE BBB-; Stable / CARE A3
Fund-based - LT/ ST-Bank Overdraft		-	-	-	91.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	36.50	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	97.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	258.36	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	91.00	CARE BBB-; Stable / CARE A3	-	1)CARE A3+; ISSUER NOT COOPERATING* (20-Mar-23)	1)CARE A3+ (11-Mar-22) 2)CARE A3+ (06-Apr-21)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	36.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (20-Mar-23)	1)CARE BBB; Stable / CARE A3+ (11-Mar-22) 2)CARE BBB; Stable (06-Apr-21)	-

3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	97.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (20-Mar-23)	1)CARE BBB; Stable / CARE A3+ (11-Mar-22) 2)CARE A3+ (06-Apr-21)	-
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	258.36	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (20-Mar-23)	1)CARE BBB; Stable / CARE A3+ (11-Mar-22) 2)CARE BBB; Stable / CARE A3+ (06-Apr-21)	-
5	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	-	1)CARE A3+; ISSUER NOT COOPERATING* (20-Mar-23)	1)CARE A3+ (11-Mar-22) 2)CARE A3+ (06-Apr-21)	-
6	Fund-based - LT-Term Loan	LT	3.74	CARE BBB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Non-Fund Based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Sudarshan Shreenivas Director **CARE Ratings Limited** Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in
Relationship Contact Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Arunava Paul Associate Director **CARE Ratings Limited** Phone: 022- 6754 3667 E-mail: arunava.paul@careedge.in Name: Mariyam Saria Analyst **CARE Ratings Limited** E-mail: Mariyam.Saria@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in