DEE Development Engineers Limited

October 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	78.10 (Enhanced from 43.60)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	440.59 (Enhanced from 391.00)	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	244.41 (Enhanced from 222.41)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of DEE Development Engineers Limited (DDEL) continues to derive strength from the extensive experience of the promoters in pre-fabrication piping industry, company's long track record of operations and reputed client base. The ratings also continue to take comfort from the moderate financial risk profile of DDEL characterised by moderate overall gearing and debt coverage indicators. The ratings take cognisance of the growth in the total operating income (TOI) and profitability during FY23 (refers to the period April 01 to March 31) and Q1FY24 (refers to the period April 01 to June 30) largely on account of better execution of projects. The ratings also take note of filing of draft red herring prospectus (DRHP) by the company for raising ₹325 crore through public issue and an offer for sale of ₹0.79 crore by its promoter Krishan Lalit Bansal, the proceeds shall be applied towards reduction of debt, investment in subsidiaries and growth plans of the company.

These rating strengths, however, continue to remain constrained by the substantial exposure towards wholly owned subsidiaries which are yet to scale up the operations. The ratings also continue to remain constrained on account of working capital-intensive nature of operations indicated by elongated collection period, exposure towards volatile raw material prices and project execution and stabilisation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the operating cycle to below 180 days on a sustained basis.
- Improvement in the order book position to more than 1.50x providing adequate revenue visibility with PBILDT margin above 14%.
- Self-sustainable operations of subsidiaries on a sustained basis.
- Successful funds raising through initial public offer (IPO) and resultant improvement in financial risk profile of the company.

Negative factors

- Further elongation in the operating cycle beyond 300 days adversely impacting liquidity position of the company.
- Operating margins declining below 10% on a sustained basis.
- Diminishing order book reported below ₹350 crore and gross cash accruals (GCA) below ₹40 crore on a sustained basis.
- Any higher-than-envisaged increase in exposure towards subsidiaries or debt-funded capex undertaken by the company.

Analytical approach: Standalone approach after factoring in the exposure towards the wholly owned subsidiaries, namely, Malwa Power Private Limited (MPPL), DEE Fabricom (India) Private Limited (DFIPL) and DEE Piping Systems (Thailand) Co. Ltd (DEE Thailand).

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') opinion that the company will continue to benefit from its experienced promoters and reputed clientele along with moderate revenue visibility in near term with unexecuted orders in hand of ₹456.24 crore as on September 01, 2023.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and long track record of operations

DDEL is promoted and managed by Krishan Lalit Bansal having technical qualification and vast experience of nearly three decades in similar nature of business. The company has been running operations since 1988 and is one of the leading players in the pre-fabrication piping industry in India, and over the years, has also built-up its presence in the export market.

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

Reputed client base albeit exposed to concentration risk

DDEL mainly caters to multinational original equipment manufacturers (OEMs) of oil and gas, power generation equipment, engineering, procurement and construction (EPC) contractors, etc., which have been providing orders on repeated basis to the company. Top 10 customers in FY23 contributed close to 67.69% in TOI of the company compared with 73.02% contribution in FY22, thus exposing the company to customer concentration risk, and any changes in the procurement policy of these customers may adversely impact operations of the company, however, the long and established track of the company with reputed customers mitigates the said risk to an extent.

Moderate order book position

DDEL has unexecuted order book of ₹456.24 crore as on September 01, 2023, compared with ₹511.07 crore as on September 01, 2022, noted during last rating review indicating moderate revenue visibility for near term. The said orders are generally executed over a period of 9-12 months. Out of the total order book, 62.45% pertains to fabrication & fittings (PY: 44%) while 37.55% pertains to job work business (PY: around 56%) where material is provided by the client. The company's order book is concentrated with the top five orders comprising approximately 43.22% (PY: 61%) of the total order book thereby exposing its revenues and cash flows to risks of delays in execution of these orders.

Improvement in scale of operations and profitability during FY23 and Q1FY24

DDEL reported healthy growth of 35.33% in TOI to ₹509.46 crore during FY23 from ₹376.47 crore in FY22 largely on account of better project execution and increasing proportion of job work revenue from 15.39% in FY22 to 30.51% in FY23. The company also operates a biomass power plant situated at Abohar, Punjab contributing approximately 7.81% of TOI in FY23 (PY: 10.71%) supplying power to Punjab State Power Corporation Limited (PSPCL) under long-term power purchase agreement (PPA) contract of 30 years valid till 2039 at average PPA rate of ₹6.93 per unit. The gross capacity utilisation factor (CUF) levels for past 12 months ending with June 30, 2023 have been satisfactory around 90%. The PBILDT margins reported by the company remains satisfactory and stood at 12.25% in FY23 compared with 12.71% in FY22 albeit improvement of 30.44% on absolute level.
Further during Q1FY24, the company reported revenue achievement of ₹130.00 crore with PBILDT margin of 12.90%.

Moderate capital structure and debt coverage indicators

Capital structure of the company remains moderate with net worth base of ₹471.66 crore as on March 31, 2023 (PY: ₹454.49 crore) as against total debt of ₹384.67 crore as on March 31, 2023 (PY: ₹277.58 crore) represented by overall gearing of 0.67x as on March 31, 2023, slightly moderated from 0.50x as on March 31, 2022. The interest coverage ratio reported stood satisfactory in similar range at 2.18x for FY23 (PY: 2.21x). The total debt/ PBILDT also stood moderate at 5.05x as on March 31, 2023 compared with 4.72x as on March 31, 2022. The company has filed DRHP for raising ₹325 crore through public issue, the proceeds shall be utilised towards reduction of debt, investment in subsidiaries and growth plans of the company.

Key weaknesses

Exposure towards subsidiaries

DDEL has investments aggregating ₹68.20 crore as on March 31, 2023 (PY: ₹68.20 crore) in its subsidiary companies (MPPL, DFIPL and DEE Thailand). The company has also extended financial support to its subsidiaries in form of inter corporate loans which stood at ₹84.72 crore (PY: ₹72.60 crore) to service debt repayments and ramp-up of operational performance. Furthermore, the bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of ₹69.21 crore (PY: ₹51.68 crores). Going forward, CARE Ratings expects group exposure to remain at similar level, and further notes that the improvement in operational performance of subsidiaries and any increase in financial support provided by DDEL shall be crucial for the company's credit profile and shall remain a key monitorable.

Working capital intensive nature of operations

The operations of the company are working capital intensive with elongated inventory and collection period of 192 days in FY23 (PY: 212 days) and 95 days (PY: 151 days), respectively, the change is mainly on account of increasing job work business in the company. The operating cycle stands at 205 days as on March 31, 2023 slightly improved from 276 days as on March 31, 2022. Going forward, any further stretch in working capital requirement shall be key rating sensitivity.

Exposure to raw material price volatility risk

The major input material used by the company for fabrication is steel pipes, total cost of materials consumed constituted around 39% of TOI in FY23 (PY: 49%) as the job work revenue increased from 15.39% of TOI in FY22 to 30.51% in FY23. The prices of steel pipes are linked to demand-supply scenario of market and the company generally enters into the fixed-price contracts with customers in piping segment and hence any sharp variation in input costs may impact the margins of the company as there is no pass on. However, the risk is partially mitigated as DDEL makes back-to-back arrangements with the suppliers as soon as the order is secured. Going forward, CARE Ratings notes that the ability of the company to effectively manage the RM prices volatility shall remain imperative from credit perspective.

Project execution and stabilisation risk

The company is setting up a new facility in Gujarat with a capacity of 12,000 MT at total cost of ₹60 crore which is to be funded through ₹40 crore debt while remaining ₹20 crore shall be funded through internal accruals. Out of the said project cost, the total expenditure incurred is ₹12 crore till September 2023 and is expected to be operational by January 2024. DDEL is also developing another facility at Numaligarh Assam with a capacity of 6,000 MT at total cost of ₹22.50 crore which is funded through debt of ₹15 crore and remaining from internal accruals. Entire amount has been incurred and tentative start date is November2023. Given the under-execution stage of both the projects, the company remains exposed to project implementation risk and stabilisation risk thereafter.

Liquidity: Adequate

The liquidity position is adequate marked by expected cash accruals of around ₹52.81 crore against standalone principal debt repayment of ₹11 crore in FY24. Furthermore, the company has unutilised fund-based working capital limits of around ₹11 crore as on July 31, 2023 providing some buffer to meet any exigencies. With a gearing of 0.67x as on March 31, 2023 and undisbursed term loan of ₹25 crore, the company has sufficient headroom, to meet its capex requirements.

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
Manufacturing Companies
Rating Methodology- Iron & Steel

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

DEE Development Engineers Limited (DDEL), incorporated in year 1988, is engaged into engineering and fabrication of pressure piping systems across diversified industries including power, oil and gas, etc., at its manufacturing facility located at Palwal District, Haryana, with an installed capacity of 36,000 MT. The company also operates a biomass power plant of 8-MW capacity at Abohar, Punjab. DDEL also has wholly-owned subsidiaries, namely, DEE Fabricom India Private Limited, engaged into heavy metal fabrication projects in the areas like wind towers fabrication, steel bridges, etc, Malwa Power Private Limited engaged into operating a biomass power plant of 7.5-MW capacity at Muktsar district, Punjab and DEE Piping Systems (Thailand) Co. Ltd.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	376.47	509.46	130.00
PBILDT	47.85	62.42	16.77
PAT	12.31	18.59	-
Overall gearing (times)	0.50	0.67	-
Interest coverage (times)	2.21	2.18	-

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: Not Applicable

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

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

Complexity level of 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-Cash Credit		-	-	-	10.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	189.59	CARE BBB+; Stable / CARE A2
Fund-based-Short Term		-	-	-	2.41	CARE A2
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	251.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	242.00	CARE A2
Term Loan-Long Term		-	-	October 2028	68.10	CARE BBB+; Stable

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	Term Loan-Long Term	LT	68.10	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (22-Sep-21)	1)CARE A-; Negative (26-Nov-20) 2)CARE A-; Negative (05-May-20)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	251.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Sep-22)	1)CARE BBB+; Stable / CARE A2 (22-Sep-21)	1)CARE A-; Negative / CARE A2 (26-Nov-20) 2)CARE A-; Negative / CARE A2 (05-May-20)
3	Non-fund-based - ST-Letter of credit	ST	242.00	CARE A2	-	1)CARE A2 (30-Sep-22)	1)CARE A2 (22-Sep-21)	1)CARE A2 (26-Nov-20) 2)CARE A2

								(05-May-20)
4	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (22-Sep-21)	1)CARE A-; Negative (26-Nov-20) 2)CARE A-; Negative (05-May-20)
5	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	189.59	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Sep-22)	1)CARE BBB+; Stable / CARE A2 (22-Sep-21)	1)CARE A-; Negative / CARE A2 (26-Nov-20) 2)CARE A-; Negative / CARE A2 (05-May-20)
6	Fund-based-Short Term	ST	2.41	CARE A2	-	1)CARE A2 (30-Sep-22)	1)CARE A2 (22-Sep-21)	1)CARE A2 (26-Nov-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT/ ST-CC/Packing credit	Simple
3	Fund-based-Short term	Simple
4	Non-fund-based - LT/ ST-Bank guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple
6	Term loan-Long term	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.

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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.

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