Dinesh Engineers Limited

February 27,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	90.00 (Enhanced from 3.74)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	306.60 (Reduced from 492.86)	CARE BBB-; Stable / CARE A3	Reaffirmed
Non Convertible Debentures	100.00	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has reaffirmed the ratings to the bank facilities of Dinesh Engineers Limited. The rating continues to derive strength from 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 fibre provider. 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.

Two new projects were awarded to the company in the previous year. The first project (BSNL Tower Project) was for setting up of 1900 towers for BSNL & the second project was setting up of CGD (City Gas Distribution) network for the petroleum and Natural Gas Regulatory Board (PNGRB) in the states of Rajasthan, Uttarakhand & Himachal. The BSNL project is well on track and has been partially completed in FY24 and the company has recognised significant portion of revenues from this project in FY24. Going forward DEL is planning to focus mainly on its core business of laying of underground optical fibre cables and the company is looking into opportunities to monetize the investment in its CGD business. CARE Ratings will closely monitor the ability of the company to monetize the CGD business and cashflows to be derived from the monetization.

The rating strengths are however, tempered with execution risks associated with BSNL project, 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. 500 crores (excluding BSNL tower project which is one time) while maintaining profitability margins at 25% on a sustained basis
- Improvement in operating cycle days below 90 days (including unbilled revenue) on sustained basis.
- Improvement in TD/GCA to 1.5 times or below on sustained basis
- Monetization of CGD business and additional cash flows to be derived from the monetization

Negative factors

- Increase in overall gearing beyond 0.75x and TD/GCA to 3x.
- Cost/time overrun for BSNL project causing negative impact on the financial profile of DEL.
- Inability to divest the CGD business as envisaged

Analytical approach: Standalone

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.

Detailed description of the key rating drivers:

Key strengths

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

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 FY23 was Rs. 418 crores & FY22 was Rs. 401 crores. Company's PBILDT margin remained healthy in the range of 25-30% over the period FY19-FY23, mainly on account of leasing business which has higher PBILDT margins. For FY24, DEPL expects to achieve a turnover between Rs.900-Rs.1000cr, with PBILDT margins of around 23%-24%.

Healthy order book position
Company has net order book of Rs.1918 crores as of December 2023. These projects are scheduled to get completed in FY24 &FY25 except the Tower Operations & Maintenance contract which is to be executed over a five year period.. This healthy order book position provides a revenue visibility over the next couple of years.

Comfortable capital structure and liquidity position
Company has comfortable capital structure with net worth of Rs. 442 crores as on March 31, 2023, as compared to Rs. 372 crores as on March 31, 2022. DEL's overall gearing was at 0.59x as on March 31, 2023, as compared to 0.29x as on March 31, 2022, Company's debt in FY23 mostly included working capital borrowings and bank guarantee against customer advance received. Additionally the company has availed NCD of Rs. 100 crores as well as term loans from NBFCs of Rs.90cr in FY24 to fund the BSNL project. Despite the higher borrowings availed in FY24 DEPL is expected to maintain overall gearing well below 1.0x in the medium term. Also, in telecommunication leasing business model, lease signed with clients 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 supporting liquidity position.

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.

Risks related to new contracts from BSNL and PNGRB

BSNL Project
The company has bagged a significant project to 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. The site is provided by BSNL on which the tower foundation, power infra commissioning, installation & supply work is with DEPL. The project will be partially funded by advance received from BSNL. The BSNL Tower project guarantees amount to Rs.49.79 crores. Revenue on the project is received on the basis of milestone performance. DEL expects to complete nearly 49% progress on the project in the year 2023-24 and remaining in the year 2024-25. As the Project will be completed in the year 2024-25 and revenue from Operation & Maintenance will also start in the year 2024-25, second half of the year. Cost in case of Tower Project is nearly 80% of the revenue and cost for operation & maintenance is nearly 70% of the revenue. The company had hired experienced personnel from Indus Tower, ATC Ltd, Airtel who have already executed similar tower projects for timely completion of the project. The execution risks remain as the project is at the mid stage. The size of the project is also significant as compared to the existing operations.
PNGRB
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, namely Rajasthan, Uttarakhand and Himachal Pradesh. 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). 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. In CARE's assessment, there would be material execution risks associated with this project as well considering the scale of the project and terrain in which it is to be implemented.
However, going forward DEL is planning to focus mainly on its core business and the company is looking into opportunities to monetize its CGD business.

Working capital intensive operations
DEL undertakes projects which has gestation period of around 4 to 6 months. The debtor's days (excluding retention money) remained stretched at 409 days in FY23. The Gross Current Asset days remained further stretched at 698 days in FY23(PY 532 days) on account of high unbilled revenues. Unbilled revenue for FY23 was Rs.201 crores as compared to Rs.237 crores in FY22 (240 crore in FY21). Working capital utilization is low with average utilization of fund based working capital limits was at 58% during last 12 months ended March 2023. DEL also utilizes Bank Guarantee as performance guarantees for its project execution business. Average utilization of non-fund limits was high at 71% during the last 12 months ended Jan 2024.

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 ~90% of the total sales in 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 gross loan principal repayment obligation (including lease liability and NCD repayment) is Rs. 40 crores in FY24 and Rs. 132 crore in FY25 and cash accruals is expected to be adequate. The operations are working capital intensive with gross current asset days of at 698 days in FY23 on account of high unbilled revenues and debtors. Unbilled revenue for FY23 was Rs.201 crores as compared to Rs.237 crores in FY22. Working capital utilization is low with average utilization of Fund based working capital limits was at 60% during last 12 months ended March 2023.

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Mobile Service Provider
Financial Ratios – Non financial Sector
Service Sector Companies
Infrastructure Sector Ratings
Short Term Instruments
City Gas Distribution

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, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	401.01	418.06	604.62
PBILDT	121.94	123.53	155.28
PAT	68.42	67.00	-
Overall gearing (times)	0.29	0.59	-
Interest coverage (times)	38.62	20.90	-

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-Term Loan		-	-	FY28	90.00	CARE BBB-; Stable
Fund-based - LT/ ST-Bank Overdraft		-	-	-	10.00	CARE BBB-; Stable / CARE A3
Fund-based - LT/ ST-Bank Overdraft		-	-	-	46.00	CARE BBB-; Stable / CARE A3
NCD	INE702Z07017	08-Dec-2023	12.85	30-Jun-2026	25.00	CARE BBB-; Stable
NCD	INE702Z07025	08-Dec-2023	12.85	30-Jun-2026	75.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	36.50	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	81.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	133.10	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*	46.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (27-Apr-23)	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 (27-Apr-23)	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*	81.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (27-Apr-23)	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*	133.10	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (27-Apr-23)	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)	-

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
5	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (27-Apr-23)	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	90.00	CARE BBB-; Stable	1)CARE BBB-; Stable (27-Apr-23)	-	-	-
7	Debentures-Non Convertible Debentures	LT	100.00	CARE BBB-; Stable				

*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	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Bank Overdraft	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated: Not applicable

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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