DEE Development Engineers Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	75.05 (Reduced from 78.10)	CARE A-; Stable	Upgraded from CARE BBB+; Stable
Long-term / Short-term bank facilities	452.00 (Enhanced from 440.59)	CARE A-; Stable / CARE A2+	Upgraded from CARE BBB+; Stable / CARE A2
Short-term bank facilities	214.00 (Reduced from 242.00)	CARE A2+	Upgraded from CARE A2
Short-term bank facilities	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1.
*Withdrawn since bank facilities are surrendered/repaid.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of DEE Development Engineers Limited (DDEL) factors in improvement in the company's capital structure and liquidity position post successful funds raising through initial public offer (IPO) in June 2024. DDEL received net proceed of ₹297.13 crore from IPO, which was largely utilised towards reduction of the company's working capital borrowings, which improved the capital structure. Total debt reduced from ₹553.24 crore as on March 31, 2024, to ₹317.93 crore as on June 30, 2024. Revision in ratings also factor in growth in total operating income and gross cash accruals in FY24 (refers to April 01 to March 31) and Q1FY25 (refers to April 01 to June 30) considering better project execution and healthy unexecuted order book position of ₹1076.84 crore reflecting 1.66x of the last year's total operating income (TOI). Ratings continue to derive strength from long-standing experience of its promoters, reputed client base and improving financial risk profile bolstered by IPO fuelled deleveraging efforts.
However, ratings strengths continue to remain constrained by substantial exposure towards wholly owned subsidiaries which are in process of scaling up the operations. Ratings also continue to remain constrained considering working capital intensive operations indicated by elongated collection period, exposure towards volatile raw material prices and project execution and stabilisation risk.
CARE has also withdrawn short term ratings assigned to WCDL. The withdrawal is based on the 'No Dues Certificate' received from the Bank of India that have extended the facilities rated by CARE.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving operating cycle to below 150 days on a sustained basis.
- Improving order book position to over 2x providing revenue visibility while sustaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 13%.
- Operations in all subsidiaries becoming self- sustainable.

Negative factors

- Further elongating operating cycle beyond 250 days adversely impacting the company's liquidity position.
- Operating margins declining below 10% on a sustained basis.
- Diminishing order book reported below ₹500 crore and/or gross cash accruals (GCA) below ₹40 crore on a sustained basis.
- Higher-than-envisaged increase in exposure towards subsidiaries or debt funded exposure undertaken by the company.

Analytical approach: Standalone approach after factoring in the exposure towards the wholly owned subsidiaries, , Malwa Power Private Limited (MPPL), DEE Fabricom (India) Private Limited (DFIPL) and DEE Piping Systems (Thailand) Company Limited (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 and healthy unexecuted orders in hand providing revenue visibility over the medium term.

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

Detailed description of key rating drivers:

Key strengths

Improvement in capital structure and liquidity position supported by funds raised through IPO
DDEL's financial risk profile has improved considering infusion of funds in the form of equity, through initial public offer on June 26, 2024. DDEL received net proceed of ₹297.13 crore from IPO, 58.90% of which shall be utilised for repayment of working capital debt, 25.24% for working capital purposes of the company and remaining 15.86% for general purposes. Infusion of funds resulted in significant improvement in capital structure and DDEL's liquidity position with overall gearing improving from 1.12x as on March 31, 2024, to ~0.40x on June 31, 2024 (post infusion). Moreover, the company's liquidity position also improved with unutilised IPO funds amounting ₹47.13 crore and reduction in the external working capital borrowings, creating sufficient gearing headroom to raise additional debt.

Growth in scale of operations and improvement in profitability in FY24 and Q1FY25
DDEL reported healthy growth of 27.38% in TOI to ₹648.97 crore in FY24 from ₹509.46 crore in FY23 largely considering better project execution. The company also operates a biomass power plant situated at Abohar, Punjab contributing ~6.53% of TOI in FY24 (PY: 7.80%) supplying power to Punjab State Power Corporation Limited (PSPCL) under long-term power purchase agreement (PPA) contract of 30 years valid till 2039. Gross capacity utilisation factor (CUF) levels for the last 12 months ending with June 30, 2024, have been satisfactory ~89.23%. PBILDT margins reported by the company remains satisfactory and stood at 12.46% in FY24 compared to 12.25% in FY23. Further, in Q1FY25, the company reported revenue achievement of ₹144.00 crore with PBILDT margin of 13.52%.

Healthy order book position:
DDEL has healthy order book position as reflected from its unexecuted order book of ₹1076.84 crore as on September 01, 2024, compared to ₹456.24 crore as on September 01, 2023, noted in last rating providing revenue visibility over the medium term (The orders are generally executed over 9-12 months period). DDEL's unexecuted order book is 1.66x of the last year's TOI. The company's order book is concentrated with the top five orders comprising ~65.63% (PY: 43.22%) of the total order book, exposing its revenues and cash flows to risks of delays in execution of these orders.

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 business. The company has been running operations since 1988 and is one of the leading players in prefabrication piping industry in India, and over the years, has also built-up its presence in the export market.

Reputed client base despite exposed to concentration risk
DDEL mainly caters multinational original equipment manufacturers (OEMs) of power generation equipment, engineering, procurement and construction (EPC) contractors serving power, process and oil and gas industry. The company's clientele includes companies like General Electric (GE), Dangote, Nooter Eriksen, Toshiba, Doosan, L&T, Thermax among others which have been providing orders on repeated basis to the company. Top 10 customers in FY24 contributed close to 52% in the company's TOI of compared to 67.69% contribution in FY23, thus exposing the company to customer concentration risk and changes in procurement policy of these customers may adversely impact the company's operations . However the company's long and established track with reputed customers mitigates this risk to an extent.

Key weaknesses

Exposure towards subsidiaries
DDEL has investments aggregating ₹68.38 crore as on March 31, 2024 (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 ₹86.91 crore (PY: ₹84.72 crore) to service debt repayments and ramp-up of operational performance. Furthermore, bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of ₹60.29 crore (PY: ₹69.21 crore). Going forward, CARE Ratings expects group exposure to remain at similar level considering improvement in operational performance of subsidiaries. Going forward, higher-than-envisaged increase in financial support provided by DDEL towards subsidiaries shall remain crucial for the company's credit profile and shall remain a key monitorable.

Working capital intensive operations
The company's operations are working capital intensive with elongated inventory and collection period of 192 days in FY24 (PY:192 days) and 81 days (PY:95 days), respectively, the change is mainly considering increasing job work business in the

company. The company procures ~60-70% of RM through import (under LC) from different countries with lead time of ~6 months and debtors collection period ~150-160 days as the company receives payment from customers per milestones achieved under contract. Average creditor's period stood ~100 days in FY24 (PY: 79 days).

Exposure to raw material price volatility risk
Major input material used by the company for fabrication is steel pipes, total cost of materials consumed constituted ~41.18% of TOI in FY24 (PY: 39%).
Prices of steel pipes are linked to demand supply scenario of market and the company generally enters fixed-price contracts with customers in piping segment and hence sharp variation in input costs may impact the company's margins as there is no pass through. However, the risk is partially mitigated as DDEL makes back-to-back arrangements with suppliers as soon as the order is secured. The company also has the strategy of partially hedging through natural hedge and remaining receivable through taking one year forward cover, trade payables are hedged by taking short term cover to safeguard against forex fluctuations as ~60-70% of its raw materials are procured from outside India. DDEL reported foreign exchange gain of ₹4.51 crore in FY24 (PY: ₹6.76 crore). Going forward, the company's ability to effectively manage RM prices volatility and foreign currency fluctuation risk shall remain imperative from credit perspective.

Liquidity: Adequate
Liquidity position is adequate marked with envisaged cash accruals of around ₹88.25 crore against standalone principal debt repayment of ₹26.51 crore in FY25 and consolidated repayment obligation of ₹42.12 crore. Further, the company has unutilised fund- based working capital limits providing buffer to meet fluctuations in working capital requirement going forward. Moreover, the company has IPO funds amounting ₹297.13 crore which has utilised majorly for working capital requirements and strengthen the company's capital structure by reducing reliance on borrowings. As on June 30, 2024, the company has unutilised IPO funds of ₹47.13 crore. With a gearing of 0.40x as on June 30, 2024, the company has sufficient gearing headroom, to raise additional debt for its capex requirements.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Iron and steel products

DDEL, incorporated in year 1988, is engaged in engineering and fabrication of pressure piping systems across diversified industries including power, oil and gas among others at its manufacturing facility 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, DEE Fabricom India Private Limited, engaged in heavy metal fabrication projects in areas like wind towers fabrication, and steel bridges, among others Malwa Power Private Limited engaged in operating a biomass power plant of 7.5-MW capacity at Muktsar district, Punjab and DEE Piping Systems (Thailand) Company Limited.

Brief Financials (₹ crore) (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	509.46	648.97	144.00
PBILDT	62.42	80.88	20.14
PAT	18.59	19.82	0.43
Overall gearing (times)	0.68	0.93	0.40
Interest coverage (times)	2.18	2.01	2.08

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE A-; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	210.00	CARE A-; Stable / CARE A2+
Fund-based-Short Term		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	242.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	214.00	CARE A2+
Term Loan-Long Term		-	-	October 2028	65.05	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Term Loan-Long Term	LT	65.05	CARE A-; Stable	-	1)CARE BBB+; Stable (10-Oct-23)	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (22-Sep-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	242.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (10-Oct-23)	1)CARE BBB+; Stable / CARE A2 (30-Sep-22)	1)CARE BBB+; Stable / CARE A2 (22-Sep-21)
3	Non-fund-based - ST-Letter of credit	ST	214.00	CARE A2+	-	1)CARE A2 (10-Oct-23)	1)CARE A2 (30-Sep-22)	1)CARE A2 (22-Sep-21)
4	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE BBB+; Stable (10-Oct-23)	1)CARE BBB+; Stable (30-Sep-22)	1)CARE BBB+; Stable (22-Sep-21)
5	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	210.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (10-Oct-23)	1)CARE BBB+; Stable / CARE A2 (30-Sep-22)	1)CARE BBB+; Stable / CARE A2 (22-Sep-21)
6	Fund-based-Short Term	ST	-	-	-	1)CARE A2 (10-Oct-23)	1)CARE A2 (30-Sep-22)	1)CARE A2 (22-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

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