DEE Fabricom India Private Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	17.90 (Enhanced from 4.00)	CARE BBB; Stable / CARE A3+	Upgraded from CARE BBB-; Stable / CARE A3
Long Term Bank Facilities	6.05 (Reduced from 10.93)	CARE A- (CE); Stable	Upgraded from CARE BBB+ (CE); Stable

Details of instruments/facilities in Annexure-1.

Unsupported rating	**CARE BBB; Stable / CARE A3+ [Upgraded from CARE BBB-; Stable / CARE A3]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for credit enhanced debt

The long-term (Term loan) rating of DEE Fabricom India Private Limited (DFIPL) is based on credit enhancement (CE) in the form of unconditional and irrevocable corporate guarantee provided by DEE Development Engineers Limited (DDEL). The revision in rating assigned to the term loan factors in revision in ratings of corporate guarantor DDEL.

Rationale and key rating drivers of DEE Development Engineers Limited (Corporate Guarantor)

The revision in ratings assigned to the 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.

Key rating drivers of DFIPL (Standalone and Unsupported Ratings)

The revision in ratings assigned to the bank facilities of DFIPL factors in the growth in scale of operations along with improvement in the company's profitability margins. Ratings also continue to derive strength from extensive experience of promoters in prefabrication piping industry through flagship entity, DDEL, and reputed clientele base. Ratings also continue to take comfort from demonstrated track record of support to DFIPL in the form of loans and advances and stated support in the form of corporate guarantee from the parent. Ratings also take cognisance of moderate order book position amounting to ₹24.11 crore as on August 31, 2024, providing modest revenue visibility over near term. However, rating strengths continue to remain constrained by the company's weak financial risk profile characterised by small scale of operations, high overall gearing and weak debt coverage indicators during FY24 (refers to April 01 to March 31).

Rating sensitivities: Factors likely to lead to rating actions (DDEL- Corporate Guarantor)

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.

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

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.

Rating sensitivities: Factors likely to lead to rating actions (DFIPL)

Positive factors

- Ramp up of operations above Rs. 100 crores led by healthy order book position on a sustained basis with sustenance in PBILDT margins above current levels.
- Improving capital structure leading to improvement in overall gearing below 2 times on a sustained basis.

Negative factors

- Moderation in financial risk profile leading to support requirement from DDEL
- Decline in operations with turnover below Rs. 20 crores with moderation in PBILDT margins below 12% on a sustained basis.

Analytical approach (Corporate Guarantor-DDEL): CARE Ratings Limited (CARE Ratings) has conducted guarantor DDEL's assessment on standalone basis after factoring in the exposure towards the subsidiary companies.

Analytical approach (DFIPL):
Credit enhancement rating: CE in the form of unconditional and irrevocable corporate guarantee of DEE Development Engineers Limited.

Unsupported and Standalone ratings: Standalone factoring in support from the parent entity, DDEL, in form of financial assistance, similar business and common management.

Outlook: Stable

Stable outlook reflects 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 ₹24.11 crore as on August 31, 2024, in DFIPL and ₹1076.84 crore as on Sep 01, 2024, in DDEL.

Detailed description of key rating drivers (DDEL- Corporate Guarantor):

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.

Detailed description of key rating drivers (DFIPL):

Key strengths

Growing Scale of operations with sustained profitability margins
DFIPL's has reported improvement in scale of operations with total operating income of ₹37.26 crore in FY24 as against TOI of ₹20.41 crore in FY23 registering growth of 82.56% though this continued to remain small. The company being engaged in fabrication of wind towers witnessed increase in demand in last one year. The company generates healthy margins due to job work business; PBILDT margin reported at 33.89% in FY24 improved from 16.45% in FY23 due to growth in scale of operations and better apportionment of fixed expenses. Furthermore, DFIPL has moderate revenue visibility equivalent to 0.65x of TOI reported in FY24 with unexecuted order book of ₹24.11 crore as on August 31, 2024. Going forward, the company's ability to scale up operations and generate adequate profitability and cash accruals shall remain monitorable.

Experienced promoters with demonstrated support from parent entity
DFIPL is promoted by K.L. Bansal and his family, who have vast experience in the company's operations. DFIPL was set up in Kutch Gujarat for catering mainly wind tower fabrication. In addition to DFIPL's plant, promoters are also successfully operating 7.5 MW of biomass-based power plant at Punjab under group entity MPPL and 8 MW biomass-based plant under the group's flagship company DEE Development Engineers Limited (DDEL) along with other metal fabrication operations. Promoters have also supported DFIPL with capital infusion. Over the years, funds have been infused in DFIPL through the holding company in the form of unsecured loans with no repayment schedule and corporate guarantee backed bank facilities.

Reputed clientele albeit exposed to concentration risk:
The company is catering customers like Siemens, Adani Green Energy Limited, ACME, Ayana Renewable Power Private Limited, however has a limited track record. DFIPL's operations are supported through common management support and DDEL's business experience. DFIPL's operations remain exposed to customer concentration risk as the top 6 customers contributed over 69.19% of total revenue in FY24.

Key weaknesses

Weak financial risk profile and dependence upon support from parent entity
The company's financial risk profile remained weak however improved in FY24 on account of healthy profit margins generated. Overall gearing stood high however though improved to 6.90x from (198.60) times in FY23 and interest coverage also improved to 4.18x in FY24 from 0.98x on March 31, 2024. The company was getting continuous support from parent entity DDEL to service debt obligations and presently has unsecured loans amounting to ₹20.55 crore. Going forward, sustainability in the company's improved operational performance and increase in financial support by DDEL shall remain a key monitorable.

Liquidity: Adequate

Liquidity position is adequate marked with expected GCA of ~₹9.93 crore against principal debt repayment of ₹7.82 crore in FY24 though the same is backed by corporate guarantee of parent entity DDEL and also supported through regular infusion in form of unsecured loans from DDEL (bearing interest @ 10% p.a.). Furthermore, the company has sanctioned working capital limits of ₹4 crores with average utilisation (factoring interchangeability with non-fund based limits) of ~80% during the year, leaving some buffer in limits.

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 Credit Enhanced Debt]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]
[Iron & Steel]

Adequacy of credit enhancement structure: Adequate as term loan facility rated by CARE Ratings is backed by unconditional and irrevocable corporate guarantee of DDEL till the tenor of facility.

About the Credit Enhancement Provider (DDEL- Corporate Guarantor)

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.

About the company and industry (DFIPL)

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

DFIPL incorporated in October 2018 is a wholly owned subsidiary of DEE Development Engineers Limited (DDEL) and commercial operations started from September 2019. DFIPL's facility is set up in Kutch, Gujarat with total capacity of 6 towers per month and engaged into heavy metal fabrication projects in the areas like wind towers fabrication, steel bridges, etc. The company is engaged mainly in job work at the said facility.

Brief Financials (₹ crore)-DDEL (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

Brief Financials (₹ crore)-DFIPL (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	20.41	37.26
PBILDT	3.36	12.63
PAT	-1.96	4.95
Overall gearing (times)	-198.06	6.90
Interest coverage (times)	0.98	4.18

A: Audited; 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-Term Loan		-	-	October 2026	6.05	CARE A- (CE); Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	17.90	CARE BBB; Stable / CARE A3+
Un Supported Rating-Un Supported Rating (LT/ST)		-	-	-	0.00	CARE BBB; Stable / CARE A3+

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	Fund-based - LT-Term Loan	LT	6.05	CARE A-(CE); Stable	-	1)CARE BBB+ (CE); Stable (10-Oct-23)	1)CARE BBB+ (CE); Stable (30-Sep-22)	1)CARE BBB+ (CE); Stable (22-Sep-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	17.90	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (10-Oct-23)	1)CARE BBB+ (CE); Stable / CARE A2 (CE) (30-Sep-22)	1)CARE BBB+ (CE); Stable / CARE A2 (CE) (22-Sep-21)
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (10-Oct-23)	1)CARE BB+ / CARE A4+ (30-Sep-22)	1)CARE BB+ / CARE A4+ (22-Sep-21)

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

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
1. DSCR > 1.00x till the tenor of facility	
2. Tangible net worth (TNW) + Unsecured Loans to be maintained at > ₹12.00 crore	
B. Non-financial covenants	NA

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Annexure-5: Lender details

To view the 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Puneet Kansal Director **CARE Ratings Limited** Phone: 120-4452018 E-mail: puneet.kansal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Dhruv Mittal Assistant Director **CARE Ratings Limited** Phone: 91-120-4452050 E-mail: dhruv.mittal@careedge.in Shabnam Goyal Lead Analyst **CARE Ratings Limited** E-mail: shabnam.goyal@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 detailed Rationale Report and subscription information,
please visit www.careedge.in**