Dee Development Engineers Limited

September 22, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long Term Bank Facilities	31.51	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Negative (Single A Minus; Outlook: Negative)
Long Term / Short Term Bank Facilities	478.20	CARE BBB+; Stable /CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Revised from CARE A-; Negative / CARE A2 (Single A Minus ; Outlook: Negative / A Two)
Short Term Bank Facilities	273.65	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**783.36 (Rs. Seven Hundred Eighty-Three Crore and Thirty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the long- term rating of Dee Development Engineers Limited (DDEL) to CARE BBB+; Stable from CARE A-; Negative while reaffirmed the short- term rating at CARE A2.

The revision in the long-term rating of Dee Development Engineers Limited (DDEL) factors in the moderation in the financial risk profile of the company characterized by decline in total operating income and profitability during FY21 (Prov) (refers to the period April 01 to March 31) on account of lower execution owing to disruption faced due to spread of COVID-19 pandemic. The revision also factors in the sustained low level of order book position providing limited revenue visibility and increase in exposure towards subsidiaries which are yet to scale up their operations. During Q1FY22 (refers to the period April 01 to June 30) the total operating income and profitability remained subdued due to disruption faced in execution on account of second wave of COVID-19 pandemic. The ratings also continue to remain constrained by the working capital-intensive nature of operations The ratings take cognizance of the exit provided to the PE investor First Carlyle Ventures III (Carlyle) holding 32.38% stake in DDEL during May 2021 for a consideration of Rs.50.49 crore.

The ratings, however, continue to derive strength from the extensive experience of promoters in pre-fabrication piping industry, company's long track record of operations and reputed clientele. The ratings continue to take comfort from the moderate overall gearing levels as well as debt coverage metrics along with adequate liquidity position.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in operating cycle to below 180 days on a sustained basis
- Improvement in the order book position to more than 1.5x providing revenue visibility
- Self- sustainable operations of subsidiaries on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Further elongation in operating cycle beyond 300 days
- Operating margins declining below 12% on a sustained basis
- Diminishing order book reported below Rs. 350 crore on sustained basis
- Any higher than envisaged increase in exposure towards subsidiaries

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations:

DDEL is promoted and managed by Mr. 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. During the

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

current year, the company has given exit to PE investor First Carlyle Ventures III (Carlyle) holding 32.38% stake in DDEL with payment through buy back of shares resulting into reduction of paid- up capital of the company in FY22.

Reputed clientele base:

DDEL mainly caters to 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 Mitsubishi Hitachi Power Systems (MHPS), General Electric (GE), Dangote, Nooter Eriksen, Toshiba, Doosan, L&T, Thermax and BHEL which have been providing orders on repeated basis to the company. DDEL has also built up an international client base over the years and exports to Nigeria, Indonesia, Bangladesh, UAE, Canada, Japan, USA, Egypt, China, and Kenya etc. The exports of the company contributed 53.03% of total operating income in FY21 (PY: 26.30%).

Moderate overall gearing and debt coverage indicators:

The overall gearing of the company at standalone level improved and stood comfortable at 0.38x as on March 31, 2021 (PY: 0.53x). The coverage ratios remained moderate with interest coverage ratio of 3.07x as on March 31, 2021 (PY: 2.80x). The improvement in gearing is on account of accretion of profits to net worth along with lower working capital loans utilization at the end of FY21. Further, the company does not have any large debt funded capex plans apart from regular capex and hence no additional long term debt requirement foreseeable in near future.

Key Rating Weaknesses

Decline in total operating income and profitability during FY21:

DDEL reported decline in total operating income to Rs. 427.46 crores in FY21 (Prov) as against Rs. 637.94 crore in FY20 largely on account of lower execution of order book owing to disruption faced due to spread of COVID-19 pandemic. The subdued performance continued in Q1FY22 also with company reporting a PBT of Rs.2.81 crore on a total operating income of Rs.76.72 crore. Owing to the restrictions due to COVID -19 pandemic the envisaged flow of new orders remained low due to deferment of upcoming projects from clients in short to medium term. Further lower execution of order book led to significant decline in income and profitability of the company. Going forward, given the low order book position and competitive business environment, the total operating income and profitability are expected to remain at similar levels of FY21. The company also operates a biomass power plant situated at Abohar, Punjab contributing approx. 8.12% of total operating income in FY21 (PY: 5.63%) supplying power to Punjab State Power Corporation Limited (PSPCL) under long term PPA contract. The CUF levels for past twelve months ending with July 2021 have been satisfactory.

Sustained low order book position:

The order book of the company stood at Rs. 425.02 crore As on September 01, 2021 which although improved from Rs. 361.30 crore as on November 10, 2020 but continued to remain at lower levels. The current order book is at only 1x of total operating income reported during FY21 indicating limited revenue visibility forward. However, the management expects to get substantial orders from orders in pipeline which stood at around Rs. 2,000 crore as on September 01, 2021. Going forward, improvement in the order book position to more than 2x providing medium term revenue visibility shall remain monitorable.

Exposure towards subsidiaries:

As on March 31, 2021 DDEL has investments of Rs. 57.12 crore in its subsidiaries (Malwa Power Private Limited (MPPL), Dee Fabricom India Private Limited (DFIPL) and DEE Piping Systems (Thailand) Co., Ltd.) The company has also extended financial support to its subsidiaries in form of loans and advances which stood at Rs. 71.99 crore as on March 31, 2021 (PY: Rs. 62.05 crore) to service debt and ramp up operational performance. Furthermore, the bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of Rs. 66.98 crore as on March 31, 2021 (PY: Rs. 81.87 crore). The support has been consistently increasing to its subsidiaries especially Dee Thailand which is reporting cash losses thereby putting pressure on the return indicators of DDEL. The exposure to Dee Thailand increased to Rs. 97.09 crore as on March 31, 2021 from Rs. 87.27 as on March 31, 2020. Going forward DFIPL is expected to generate sufficient cash flows and may not require any incremental support from DDEL, however Dee Thailand would further require financial assistance from DDEL to the tune of Rs. 10-15 crores to meet debt repayments in current year. The envisaged 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. Any higher than envisaged increase in exposure towards subsidiaries shall remain credit negative.

Working capital intensive nature of operations

Operations of the company are working capital intensive with elongated inventory period of 204 days in FY21 (PY: 164 days) as the company procures around 65-70% of RM through import (under LC) from different countries with lead time of approx. 6 months and debtors collection period is around 150-160 days as company receives payment from customers as per milestones achieved under contract. The debtors' days seems higher in FY21 at 158 days (PY: 119 days) though the absolute amount remained in line with previous years. Total debtors as % of sales come out around 42.26% in FY21 (PY: 27.83%) due to lower execution of projects and hence lower reported topline of the company due to Covid-19 induced lockdown and resultant economic disruptions. Going forward, any further stretch in working capital requirement shall be key rating sensitivity.

Industry Outlook
Relatively large investments and technical qualification requirements restrict entry of new players in specialized prefabricated piping business. Also, with the increasing requirement of prefabricated piping into Oil & Gas sector, and other process industries owing to factors, such as the increasing demand from the manufacturing sector, the rising preference towards pre-engineered buildings and components, government initiatives toward infrastructure development activities etc. may lead to newer export as well as domestic orders on account of established credentials of the company and hence long-term prospects of DDEL remain stable.

Liquidity: Adequate
Liquidity position is adequate marked with expected cash accruals of around Rs. 38 crore against principal debt repayment of Rs. 11.15 crore in FY22 on a standalone basis. Considering the guaranteed debt obligations, the repayment obligations stood at Rs. 28.63 crore for FY22. Further, the company has sanctioned fund- based working capital limits of Rs. 230 crore with average utilization of 69% during trailing 12 months ended in June 2021. Unutilized limits provides sufficient headroom to meet any fluctuations in working capital requirement in future.

Analytical approach:
CARE has conducted assessment based on standalone approach after factoring in the exposure towards the group companies, which are at initial stage of operations and having low level of operations.

Applicable Criteria
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology- Manufacturing Companies
Criteria for Short- Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities

About the Company
DDEL incorporated on March 21, 1988 engaged into engineering and fabrication of pressure piping systems across diversified industries including power, oil and gas etc. DDEL mainly caters in India and overseas to power generation equipment OEMs, EPC contractors, petrochemicals, oil and gas sector. The company's manufacturing range includes high-pressure piping systems, induction pipe bends, pipe fittings, pressure vessels, hanger & support apart from other tailor-made fabricated components. The company specializes in alloy steel P91, P92 piping fabrication along with air quench P91 induction bend technology. Manufacturing facility with an installed capacity of 36,000 MT (carbon-steel equivalent) located at Palwal District, Haryana and an engineering office in Chennai. It has in-house fittings manufacturing facility, dedicated design & engineering division, and induction bending section. The company also operates a biomass power plant of 8 MW capacity at Abohar, Punjab Apart from this, the company has another biomass power plant of 7.5 MW capacity at Muktsar district, Punjab under its wholly-owned subsidiary Malwa Power Private Limited.

Standalone Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	637.94	427.46
PBILDT	95.94	66.56
PAT	27.57	23.46
Overall gearing (times)	0.53	0.38
Interest coverage (times)	2.80	3.07

A: Audited, Prov: Provisional

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	September 2025	21.51	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	283.20	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	266.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	195.00	CARE BBB+; Stable / CARE A2
Fund-based-Short Term	-	-	-	7.65	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	21.51	CARE BBB+; Stable	-	1)CARE A-; Negative (26-Nov-20) 2)CARE A-; Negative (05-May-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (31-Jan-19)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	283.20	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Negative / CARE A2 (26-Nov-20) 2)CARE A-; Negative / CARE A2 (05-May-20)	1)CARE A-; Negative / CARE A2 (09-Oct-19)	1)CARE A-; Stable / CARE A2 (31-Jan-19)
3.	Non-fund-based - ST-Letter of credit	ST	266.00	CARE A2	-	1)CARE A2 (26-Nov-20) 2)CARE A2 (05-May-20)	1)CARE A2 (09-Oct-19)	1)CARE A2 (31-Jan-19)

4.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE A-; Negative (26-Nov-20) 2)CARE A-; Negative (05-May-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (31-Jan-19)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	195.00	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Negative / CARE A2 (26-Nov-20) 2)CARE A-; Negative / CARE A2 (05-May-20)	1)CARE A-; Negative / CARE A2 (09-Oct-19)	1)CARE A-; Stable / CARE A2 (31-Jan-19)
6.	Fund-based-Short Term	ST	7.65	CARE A2	-	1)CARE A2 (26-Nov-20)	-	-

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

Annexure 4: Complexity level of various instruments rated for this company

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 Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple
6.	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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