# Dhansar Engineering Company Ltd (Revised)

March 30, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 283.19 (enhanced from 261.09) **(Rs. Two hundred eighty three crore and nineteen lakh only)** | **CARE BBB+, Stable (Triple B Plus; Outlook: Stable)** | **Reaffirmed** |

*Details of instrument in Annexure-1*

## Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dhansar Engineering Company Private Limited (DECPL) continues to draw strength from experienced promoters with long track record of operations, significant fleet of owned heavy equipment, healthy order book position with significant increase in orders in YTDFY20 providing revenue visibility, reputed clientele, satisfactory capital structure and satisfactory performance in FY19 (refers to the period April 1 to March 31), albeit marginal moderation in turnover in 9MFY20

The rating also factors in the increase in term debt to finance equipment loan where cash flows from the project would accrue over longer period having bearing on debt coverage indicator. Promoters of DECPL have articulated that unsecured loans extended by group would not be withdrawn and ICDs (including given to group) shall be brought back to support timely debt servicing in case of requirement. The rating factors in this enunciation in the analysis. Further a good chunk of capex is expected to be met out of proceeds from sale of old equipment.

The rating further is constrained by exposure to client concentration risk, risk of delay in project execution, tender based nature of operations, susceptibility of profitability to volatility in input prices, capital intensive nature of business and regulatory risk in the mining industry.

**Key Rating Sensitivities**

Positive Factors:

- Improvement in PBILDT margin (>15%) and PAT margin (>5%) on a sustained basis.

Negative Factors

- Deterioration in overall gearing (>1.3 x) and debt coverage indicators-TD/GCA (>4x) and interest coverage (<4x) on a sustained basis.
- Any regulatory hurdle impacting the operations of the company on a sustained basis.

## Detailed description of the key rating drivers

**Key Rating Strengths**

**Experienced promoters with long track record of operation**

The company is managed by Mr Manoj Agarwalla, Chairman, who has an experience of more than 25 years in the mining activities. He looks after the day-to-day operations of the company along with the support of his son, Mr Harsh Agarwalla, who looks after the finance function of the company.

**Significant fleet of owned heavy equipment**

The company has established a large fleet of heavy equipment and vehicles with more than 650 owned heavy equipment / vehicles (including dozers, dumpers, excavators and trailers). For contracts which are not further subcontracted, most of DECPL's heavy equipment requirement is met in-house.

**Healthy order book position with significant increase in orders in YTDFY20**

DECPL's order book significantly increased from Rs.1,854 crore as on December 31, 2018 to Rs.5371 crore as on December 31, 2019 representing 7.45x of the net billing of FY19. Of the orders outstanding as on December 31, 2019, order amounting to Rs.4305.79 crore pertained to orders secured during YTDFY20. The increase was largely on account of receipt of one big long term order of 20 years for stone mining.

**Reputed clientele albeit client concentration risk**

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

DECPL's order book comprises of distinguished clients in their respective line of business which usually ensures timely receipt of receivable and also reduces counterparty credit risks. The company has established strong relationship with its clients and has been able to get repeat orders from its clients indicating satisfactory project execution capabilities. However, the company is exposed to client concentration risk, with top five clients contributing to 69% of the revenue in FY19 and considering the current order book, the same trend is expected to follow going forward.

**Satisfactory financial performance in FY19 albeit marginal moderation in turnover in 9MFY20, however strong order book ensuring revenue visibility**

DSECL reported a total operating income of Rs.723 crore in FY19 (PY: Rs.707 crore) with income from mining services being in line with that in FY18. The PBILDT margin deteriorated from 11.89% in FY18 to 10.73% in FY19 due to increase in consumption of stores and spares and on account of increase cost of power and fuel. Interest coverage improved from 5.39x in FY18 to 6.55x due to decrease in interest costs. The company has also reported increase in non-operating income, mainly arising out of profit on sale of heavy earth moving equipment, which aided y-o-y PBT growth.

In 9MFY20, on account of completion of some of the contracts during the earlier part of the financial year, coupled with new orders starting only from Q4FY20, the TOI decreased y-o-y by 12% to Rs.463 crore. However, same is expected to increase going forward with the execution of the new orders. Moreover, on account of improvement in PBILDT margin from 10.33% in 9MFY19 to 12.29% in 9MFY20, the PBILDT level in 9MFY20 remained in line with that in 9MFY19.

**Satisfactory capital structure**

The capital structure continued to be satisfactory with overall gearing of 0.70x as on Mar'19 (0.72x as on Mar'18) and Total Debt/GCA of 2.08x in FY19 (2.01x in FY18). Overall gearing and total debt/ GCA stood at 0.82x and 2.70x respectively as on December 31, 2019.

**Key Rating Weaknesses**

**Risk of delay in project execution**

DECPL's business is susceptible to financial loss arising out of delay in project execution or inferior performance as generally there are penalty clauses for extraction of minerals below the agreed minimum level of quantity. However, the company has not borne any penalty amount in the past four years.

**Tender based nature of operations**

In case of contracts with PSUs, the company has to participate in tenders for the contracts. This exposes the revenue generation capabilities to successful bidding and acquiring tenders. In addition with the coal mining space in particular becoming more competitive bargaining power and pricing flexibility is limited.

**Profitability susceptible to volatility in input prices**

DECPL contracts mainly comprise income from excavation and evacuation services which are based on per tonne of coal excavated/evacuated and run over the period of contract. The major costs for such services are the hire charges for equipment followed by diesel cost for plying the equipment, and labour. However, the company has an escalation clause in most of its contract to pass on the increase in diesel and labour cost to some extent, which reduces the risk of volatility of diesel & labour cost to a certain extent.

**Capital intensive nature of business**

The operation of the company is capital intensive in nature as the company has to continuously incur capex for procuring heavy earthmoving equipment (like Dumpers, Excavators, Bulldozers, etc.) and other mining equipment (like Compactor, Drillers, Cranes, etc) for replacement purpose.

**Regulatory risk in the mining industry**

The Indian mining industry is regulated by the Government of India and thus DECPL is exposed to the risk attached to ban on mining activities of its client due to sudden change in government policy.

**Liquidity: Adequate**

The company's fund based utilization for the last 12 months ended Jan 2020 was moderate at 62% indicating the cushion available in the form of unutilised limit. In FY20, the expected cash accruals and cash already generated from sold assets are expected to be sufficient to meet the repayment obligations. Further, in FY21, DECPL's cash accruals is also expected to be sufficient to meet its term debt obligations during the year. The company had Rs.25.79 crore invested in ICDs as on March 31, 2019 which had increased to about Rs.30 crore as on date. The promoter of DECPL have articulated that liquid funds would be made available to the company by calling back of ICDs or through any other support from the promoters, if need be. Further, the management is expecting indirect tax refund of around Rs.12 crore which is also expected to boost liquidity.

**Analytical approach:** Standalone Approach

**Applicable Criteria**
Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Rating Methodology -Service Sector Companies

**About the company**
Dhansar Engineering Company Private Ltd. (DECPL), incorporated in 1955, was promoted by Late Mr. Basant Kumar Agarwalla of Dhanbad, Jharkand. DECPL started civil construction activities in 1998 and from 2003 onwards, the company forayed into support services of mining (coal, iron ore, bauxite, zinc and chromite ore) activities such as removal of over burden, drilling & blasting, extraction of mineral, transportation to railway siding, site levelling, etc.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 708.05 | 723.67 |
| PBILDT | 84.21 | 77.65 |
| PAT | 18.65 | 24.71 |
| Overall gearing (times) | 0.72 | 0.70 |
| Interest coverage (times) | 5.39 | 6.55 |

*A: Audited*

**Status of non-cooperation with other CRA:** Not applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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 |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | Dec 2024 | 111.00 | CARE BBB+; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 53.00 | CARE BBB+; Stable |
| Non-fund-based - LT-Bank Guarantees | - | - | - | 119.19 | CARE BBB+; Stable |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | 111.00 | CARE BBB+; Stable | 1)CARE BBB+; Stable (04-Apr-19) | 1)CARE BBB+; Stable (06-Apr-18) | 1)CARE BBB+; Positive (12-Apr-17) | - |
| 2. | Fund-based - LT-Cash Credit | LT | 53.00 | CARE BBB+; Stable | 1)CARE BBB+; Stable (04-Apr-19) | 1)CARE BBB+; Stable (06-Apr-18) | 1)CARE BBB+; Positive (12-Apr-17) | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 3. | Non-fund-based - LT-Bank Guarantees | LT | 119.19 | CARE BBB+; Stable | 1)CARE BBB+; Stable (04-Apr-19) | 1)CARE BBB+; Stable (06-Apr-18) | 1)CARE BBB+; Positive (12-Apr-17) | - |

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

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