# Dhansar Engineering Company Private Limited

March 24, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 283.19 | CARE BBB; Stable; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable ISSUER NOT COOPERATING*) | Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category |
| **Total Bank Facilities** | **283.19 (Rs. Two Hundred Eighty-Three Crore and Nineteen Lakhs Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has been seeking information from Dhansar Engineering Company Private Limited (DECPL) to monitor the rating(s) vide e-mail communications/letters dated February 01, 2021; January 18, 2021 & January 11, 2021 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, DECPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on DECPL's bank facilities will now be denoted as **CARE BBB; Stable; ISSUER NOT COOPERATING***.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

The ratings have been revised on account of non-availability of adequate information thereby leading to uncertainty around its credit risk.

**Detailed description of the key rating drivers**

*At the time of last rating on March 30, 2020 the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies):*

**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**

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**

DECPL reported a total operating income (TOI) 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.

In FY20, the company has reported decline in TOI by 14% to Rs 617.17 crore. However, the PBILDT margins has improved to 14.55%.

**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.

In FY20, the debt equity and overall gearing ratio have deteriorated to 0.77x and 0.93x as on March 31, 2020 on account of increase in total debt levels in FY20 vis-à-vis FY19. TD/GCA continued to remain at similar level while Interest coverage ratio declined from 6.55x in FY19 to 5.88x in FY20.

**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.

**Analytical approach:** Standalone

**Applicable Criteria**

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy of Default Recognition
Liquidity Analysis of Non-financial sector entities
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) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 723.67 | 617.17 |
| PBILDT | 77.65 | 89.80 |
| PAT | 24.71 | 23.09 |
| Overall gearing (times) | 0.70 | 0.93 |
| Interest coverage (times) | 6.55 | 5.88 |

*A: Audited*

**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 |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | Dec 2024 | 111.00 | CARE BBB; Stable; ISSUER NOT COOPERATING* |
| Fund-based - LT-Cash Credit | - | - | - | 53.00 | CARE BBB; Stable; ISSUER NOT COOPERATING* |
| Non-fund-based - LT-Bank Guarantees | - | - | - | 119.19 | CARE BBB; Stable; ISSUER NOT COOPERATING* |

**Issuer did not cooperate; Based on best available information*

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 111.00 | CARE BBB; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BBB+; Stable (30-Mar-20)<br>2)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; ISSUER NOT COOPERATING* | - | 1)CARE BBB+; Stable (30-Mar-20)<br>2)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; ISSUER NOT COOPERATING* | - | 1)CARE BBB+; Stable (30-Mar-20)<br>2)CARE BBB+; Stable (04-Apr-19) | 1)CARE BBB+; Stable (06-Apr-18) | 1)CARE BBB+; Positive (12-Apr-17) |

**Issuer did not cooperate; Based on best available information*

**Annexure-3: Detailed explanations of covenants of the rated instruments/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-Term Loan | Simple |
| 3. | Non-fund-based - LT-Bank Guarantees | Simple |

***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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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.