

## D S Engineering Works LLP

October 25, 2021

### Ratings

| Facilities/Instruments                 | Amount (Rs. crore)               | Rating <sup>1</sup> | Rating Action  |
|--|----------------------------------|---------------------|--|
| Long Term / Short Term Bank Facilities | -                                | -                   | Reaffirmed at CARE C / CARE A4 (Single C / A Four) and Withdrawn |
| Long Term Bank Facilities              | -                                | -                   | Reaffirmed at CARE C (Single C) and Withdrawn                    |
| Short Term Bank Facilities             | -                                | -                   | Reaffirmed at CARE A4 (A Four) and Withdrawn                     |
| <b>Total Bank Facilities</b>           | <b>0.00</b><br><b>(Rs. Only)</b> |                     |  |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale and Key Rating Drivers:

CARE has reaffirmed and withdrawn the outstanding ratings of CARE C/CARE A4(Single C/ A Four) assigned to the bank facilities of D S Engineering Works LLP with immediate effect. The above action has been taken at the request of D S Engineering Works LLP and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE.

### Detailed description of the key rating drivers

#### Key Rating Weakness

##### Liquidity- Stretched

The liquidity position of the company is stretched owing to cash flow mismatches on account of impact of Covid on the operations of DSEW. The working capital limits of the company stands fully utilised. The entity had availed moratorium for interest servicing from March to August 2020. Also, the company had availed COVID lines for meeting its short-term liquidity requirements.

##### Small scale of operations

The entity, despite, having presence in the construction domain for more than thirty years, remains a relatively small sized entity, marked by tangible net worth of Rs.6.15 crore as on March 31, 2021 (provisional). Moreover, there has been a significant impact of COVID-19 on the firm's operations and the TOI of the company declined by more than 50% y-o-y to Rs 36.35 crore in FY21.

##### Leveraged capital structure

The capital structure of the entity is levered with overall gearing of 3.49x as on March 31, 2021 (prov.) Nevertheless, the debt profile of the entity consists of Covid loans, equipment finance loans, working capital borrowings and unsecured loans. The company had availed Covid loans from one of its bankers to meet its liquidity shortfall during Covid time.

##### Moderate operating cycle albeit working capital intensive nature of operations

DSEW operates in a working capital-intensive industry, the operating cycle of the entity remained moderate at 53 days as on March 31, 2020 (Prov.). Although comfort is drawn from the credit period extended by the creditors which ranges from 2-3 months. However, it takes around three months for the firm to realise its debtors, this results in increased dependency on working capital borrowings.

##### Tender based nature of works amidst intensive competition in the industry

DSEW generally participate in the bidding/tender process and the order contract is awarded to the entity with designs and other material requirements. The revenues are dependent on the firm's ability to bid successfully for these tenders. Profitability margins come under pressure because of this competitive nature of the industry. Further, most of the contracts have a retention clause of 10%-15% which is withheld for a specific period of time thereby imposing pressure on the liquidity.

### Key Rating Strengths

#### Experienced Partners with proven track record of operation

Mr. Tirumala Durgarao Veerapaneni, who is the managing partner of the entity has more than thirty years of experience in the steel fabrication and structural works industry. The other partner, Mr. Dinakar Sai, has completed his MS from Germany

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

also has a decade long industry experience and handles marketing division of the firm and is instrumental in getting new orders from reputed and large private players.

### Industry Outlook

Construction & Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. This provides immense opportunities to construction companies to expand existing capacities and harness project management expertise. With the announcement of substantial outlay for infrastructure in Union Budget 2020 through National Infrastructure Pipeline (NIP), the total project capital expenditure in infrastructure sectors in India during the fiscals 2020 to 2025 was projected to over INR 10.2 trillion

**Analytical approach:** Standalone

### Applicable Criteria

[Policy on Withdrawal of Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[Construction](#)

### About the Company

During the year 1991, Mr. V T Durga Rao established DK Industries as a sole proprietary firm which was engaged in execution of small structural steel works on sub-contract basis. During 2018, Mr. Durga Rao along with his family members established a Limited Liability Partnership firm (LLP) with the name "D S Engineering works LLP (DSEW)" with a vision to grow and execute bigger projects. DSEW is engaged in engineering and construction works related to designing and structural steel fabrication jobs for industrial plants.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (Prov) |
|------------------------------|----------------|-------------------|
| Total operating income       | 69.36          | 36.77             |
| PBILDT                       | 2.69           | 3.92              |
| PAT                          | 0.42           | 1.76              |
| Overall gearing (times)      | -22.19         | 3.49              |
| Interest coverage (times)    | 2.09           | 3.88              |

A: Audited; Prov: Provisional

**Status of non-cooperation with previous CRA:** Nil

**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                      | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit                 |      | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - LT/ ST-Stand by Line of Credit |      | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - ST-BG/LC                   |      | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - LT-Funded Interest term Loan   |      | -                | -           | -             | 0.00                          | Withdrawn                                 |

**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       | Fund-based - LT- Cash Credit                 | LT              | -                              | -      | 1)CARE C (09-Aug-21)                      | 1)CARE BB; Stable (28-Oct-20)             | -   | -   |
| 2       | Fund-based - LT/ ST- Stand by Line of Credit | LT/ST*          | -                              | -      | 1)CARE C / CARE A4 (09-Aug-21)            | 1)CARE BB; Stable / CARE A4 (28-Oct-20)   | -   | -   |
| 3       | Non-fund-based - ST-BG/LC                    | ST              | -                              | -      | 1)CARE A4 (09-Aug-21)                     | 1)CARE A4 (28-Oct-20)                     | -   | -   |
| 4       | Fund-based - LT- Funded Interest term Loan   | LT              | -                              | -      | 1)CARE C (09-Aug-21)                      | 1)CARE BB; Stable (28-Oct-20)             | -   | -   |

\* Long Term / Short Term

**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 instrument                          | Complexity level |
|--------|---|------------------|
| 1      | Fund-based - LT-Cash Credit                 | Simple           |
| 2      | Fund-based - LT-Funded Interest term Loan   | Simple           |
| 3      | Fund-based - LT/ ST-Stand by Line of Credit | Simple           |
| 4      | Non-fund-based - ST-BG/LC                   | Simple           |

**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](mailto: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.

#### Disclaimer

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**