DEE Development Engineers Limited

September 30, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	43.60 (Enhanced from 31.51)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	391.00 (Reduced from 478.20)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	222.41 (Reduced from 273.65)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**657.01 (₹ Six Hundred Fifty-Seven Crore and One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of DEE Development Engineers Limited (DDEL) continues 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 also continue to take comfort from the moderate financial risk profile of the company characterized by moderate overall gearing and debt coverage metrics. The ratings take cognizance of improving order book position of ~Rs.511 crore as on Sept 01, 2022 providing revenue visibility over near term with increasing proportion of job work revenue going forward.

These rating strengths, however, constrained by the subdued scale of operations during FY22 (refers to period April 01 to March 31) and expected to remain lower than the past levels due to increasing proportion of job work, substantial exposure towards subsidiary companies which are yet to scale up the operations, working capital-intensive nature of operations and exposure towards raw material price volatility and foreign exchange fluctuation risk.

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 scale of operations above Rs. 500 crores with EBIDTA margin above 15% on a sustained basis.
- Improvement in the order book position to more than 1.50 times providing revenue visibility
- Self- sustainable operations of subsidiaries on a sustained basis

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

- Further elongation in operating cycle beyond 300 days adversely impacting liquidity position of the company
- Operating margins declining below 12% on a sustained basis
- Diminishing order book reported below Rs. 350 crore and GCA below Rs. 30 crores on a sustained basis
- Any higher than envisaged increase in exposure towards subsidiaries or debt funded capex undertaken by the company.

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. 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 albeit exposed to concentrated risk

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 which have been providing orders on repeated basis to the company. Top 10 customers in FY22 contributed close to 73% in total operating income (TOI) of the company compared to 82.66% contribution in FY21, thus exposing the company to customer concentration risk and any changes in procurement policy of these customers may adversely impact operations of the company, however the long and established track of the company with reputed customers mitigates the said risk to an extent. DDEL has also built up an international client base over the years and the revenue from exports contributed around 38.87% of TOI in FY22 (PY: 34.07%).

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

Sustained moderate order book position

The company has been shifting business model from manufacturing to job work, which is expected to improve the profitability margins of the company though the topline contribution would be lower going forward. The order book of the company stood at Rs. 511.07 crore as on September 01, 2022 to be executed over 9-18 months period (~Rs. 425.02 crore as on September 01, 2021). The order book stands equivalent to 1.37 times of TOI reported during year FY22 indicating moderate revenue visibility for current year. Out of total order book ~56% is job work while remaining 44% is fabrication & fittings. The company's order book is moderately concentrated with the top 5 orders comprising approx. 61% of the total order book thereby exposing its revenues and cash flows to risks of delays in execution of these orders.

Moderate financial risk profile with subdued scale of operations during FY22

Financial risk profile of the company remains moderate characterized by moderate overall gearing and debt coverage indicators. Overall gearing continued to remain moderate at 0.52x as on March 31, 2022 (PY 0.38x) while the interest coverage ratio reported at similar level and stood at 2.38x in FY22 (PY: 2.35x). The total operating income moderated to Rs. 373.02 crore in FY22 from Rs. 414.08 crores in FY21 largely due to increasing proportion of job work revenue basis the change in business model. The company also operates a biomass power plant situated at Abohar, Punjab contributing approx. 10.81% of total operating income in FY22 (PY: 8.03%) supplying power to Punjab State Power Corporation Limited (PSPCL) under long term PPA contract of 30 years valid till 2039 at average PPA rate of Rs. 6.93 per unit. EBIDTA margins reported by the company remains satisfactory and stood at 13.82% in FY22 slightly improved from 12.43% in FY21 despite subdued scale of operations during the year whereas PAT margin moderated from 5.34% in FY21 to 2.38% in FY22 mainly on account of deferred tax credit adjustment. The company has reported topline of Rs. 107.50 crores in Q1FY23 (refers to period April 01 to June 30) with slightly subdued EBIDTA margin of 8.26%. Going forward, any higher than envisaged debt funded capex undertaken by the company adversely impacting the financial risk of the company shall be negative from credit perspective.

Key Rating Weaknesses

Exposure towards subsidiaries

DDEL has investments of Rs. 68.20 crore as on March 31, 2022 (PY: Rs. 57.12 crore) in its subsidiary companies. The company has also extended financial support to its subsidiaries in form of inter corporate loans which stood at Rs. 72.60 crore (PY: Rs. 71.99 crore). Further, the bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of Rs. 49.51 crore (PY: Rs. 66.98 crore). Adjusted Overall Gearing stood at 0.92x as on March 31, 2022, moderated from 0.70x as on March 31, 2021. Going forward, further support would be required in DEE Thailand and DFIPL to service the debt obligations, however the improvement in operational performance of subsidiaries and any higher than envisaged increase in financial support provided by DDEL shall be crucial for the company's credit profile.

Working capital intensive nature of operations

Operations of the company are working capital intensive with elongated inventory and collection period of 222 days in FY22 (PY: 203 days) and 151 days (PY: 158 days) respectively. The company procures around 60-70% of RM through import (under LC) from different countries with lead time of approx. 6 months. The debtors' days seems higher in FY21 & FY22 though the absolute amount have reduced during FY22 compared to past years. Average creditor's period stood around 82 days in FY22 (PY: 63 days). Going forward, any further stretch in working capital requirement shall be key rating sensitivity.

Exposure to raw material price volatility and foreign exchange fluctuation risks

The major input material used by the company for fabrication is steel pipes, total cost of materials consumed constitutes around 45 to 55% of sales. The company generally enters into the fixed-price contracts with customers, hence any sharp variation in raw material cost may impact the margins of the company as there is no pass on clause. However, the risk is partially mitigated as DDEL makes back-to-back arrangements with the suppliers as soon as the order is secured. The company hedges the forex exposure through natural hedging and remaining payables are hedged by taking short term cover as around 60-70% of its raw materials are procured from outside India. The company reported foreign exchange gain of Rs. 6.04 crore in FY22 (PY: Rs. 2.63 crore). Going forward, ability of the company to effectively manage the RM prices volatility and foreign currency fluctuation risk shall remain imperative from credit perspective.

Liquidity analysis: Adequate

Liquidity position is adequate marked with expected cash accruals of around Rs. 43 crores against standalone principal debt repayment of Rs. 8.60 crore and guaranteed repayment obligation of subsidiary companies is Rs. 21.59 crores in FY23. Further, the company has unutilised fund- based working capital limits of ~21% during trailing 12 months ending with May 31, 2022, amounting close to Rs. 16 crore provides sufficient headroom to meet any fluctuations in working capital requirement going forward.

Analytical approach: CARE has conducted assessment based on standalone approach after factoring in the exposure towards the group companies, which has limited track record and small scale of operations.

Applicable Criteria

Policy on Default Recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities

[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)
[Steel](#)

About the Company

DDEL incorporated in year 1988 engaged into engineering and fabrication of pressure piping systems across diversified industries including power, oil and gas etc. at its manufacturing facility located 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 namely DEE Fabricom India Private Limited engaged into heavy metal fabrication projects in the areas like wind towers fabrication, steel bridges, etc, Malwa Power Private Limited engaged into operating a biomass power plant of 7.5 MW capacity at Muktsar district, Punjab and DEE Piping Systems (Thailand) Co. Ltd.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (Prov.)	Q1FY2023 (UA)
Total operating income	414.08	373.02	107.50
PBILDT	51.49	51.57	8.88
PAT	22.12	8.89	1.23
Overall gearing (times)	0.38	0.52	Not Available
Interest coverage (times)	2.35	2.38	1.76

A: Audited. Prov.: Provisional, UA: Unaudited

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	January 2028	33.60	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	229.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	-	220.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	162.00	CARE BBB+; Stable / CARE A2
Fund-based-Short Term	-	-	-	-	2.41	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	33.60	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Sep-21)	1)CARE A-; Negative (26-Nov-20) 2)CARE A-; Negative (05-May-20)	1)CARE A-; Negative (09-Oct-19)
2	Non-fund-based - LT/ ST-Bank	LT/ST*	229.00	CARE BBB+;	-	1)CARE BBB+;	1)CARE A-; Negative /	1)CARE A-; Negative /

	Guarantee			Stable / CARE A2		Stable / CARE A2 (22-Sep-21)	CARE A2 (26-Nov-20) 2)CARE A-; Negative / CARE A2 (05-May-20)	CARE A2 (09-Oct-19)
3	Non-fund-based - ST-Letter of credit	ST	220.00	CARE A2	-	1)CARE A2 (22-Sep-21)	1)CARE A2 (26-Nov-20) 2)CARE A2 (05-May-20)	1)CARE A2 (09-Oct-19)
4	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Sep-21)	1)CARE A-; Negative (26-Nov-20) 2)CARE A-; Negative (05-May-20)	1)CARE A-; Negative (09-Oct-19)
5	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	162.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (22-Sep-21)	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)
6	Fund-based-Short Term	ST	2.41	CARE A2	-	1)CARE A2 (22-Sep-21)	1)CARE A2 (26-Nov-20)	-

* Long 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/ ST-CC/Packing Credit	Simple
3	Fund-based-Short Term	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple
6	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

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

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About CARE Ratings:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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