DEE Development Engineers Limited

May 05, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	40.96	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed**
Short term Bank Facilities	274.24 (reduced from 283.99)	**CARE A2 (A Two)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	502.00 (enhanced from 492.25)	**CARE A-; Negative/CARE A2 (Single A Minus; Outlook: Negative/ A Two)**	**Reaffirmed**
Total	**817.20 (Rs. Eight hundred seventeen crore and twenty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to bank facilities of DEE Development Engineers Limited (DDEL) continue to derive strength from the extensive experience of its promoters, the company's long track record of operations and its steady operational performance with healthy operating margins. The ratings also factor in the company's moderate financial risk marked by moderate gearing and debt coverage metrics, and adequate liquidity position. However, the ratings are constrained by working capital intensive nature of operations and significant exposure towards group companies.

Rating Sensitivity

Positive:

- Reduction in operating cycle to below 180 days on sustained basis
- Improvement in order book position

Negative:

- Substantial impact of covid-19 on order flows and resultant decline in TOI below Rs.500 crore and operating margins below 12%
- Any substantial increase in debt levels or higher than envisaged exposure towards subsidiaries.
- Elongation in operating cycle beyond 300 days.

Outlook: Negative

The outlook continues to be negative on account of the persisting moderation in the company's order book position as on April 2020 and consequently on the limited revenue visibility for the company for the medium term. The outlook may be revised to stable if the company is able to report increase in order book position thereby ensuring better visibility for the future revenues and cash flows.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: DDEL is promoted by Mr K L Bansal who is technically qualified and has vast experience in the piping systems business. He is supported by a team of professionals who have significant experience in their respective fields. The company – one of the leading players in the pre-fabrication piping industry in India – has also built up strong credentials over the years in the export market by virtue of its strong technical foothold and product performance. In August 2015, Carlyle group acquired 32.38% stake in the company through its fund 'First Carlyle Ventures III' (Carlyle). As part of the investment, Carlyle infused fresh equity of Rs.122 crore in the company and also inducted two senior members in the board of directors of DDEL.

Steady operational performance: The total operating income of DDEL remained stable at Rs 536.50 cr during FY19 (refers to period: April 01, 2018 to March 31, 2019) (PY: Rs 536.02 cr) on account of steady capacity utilization of 82% in FY19 (PY: 82%). PBILDT margin slightly moderated but remained healthy at 17.28% in FY19 (PY: 17.82%). DDEL reported a GCA of Rs 50.35 cr in FY19 (PY: Rs 40.60 cr). As per unaudited figures available for FY20 (refers to period: April 01, 2019 to March 31, 2020), DDEL has reported total operating income of Rs.620 cr with estimated PAT of around Rs.30 cr.

Moderate financial risk profile: The overall gearing improved and stood comfortable at 0.79x as on March 31, 2019 (PY: 0.92x) on account of repayment of term loan and accretion of profits to net-worth. The total debt to GCA improved to 7.00x

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

in FY19 (PY: 9.38x), while still being high. The interest coverage ratio moderated due to a marginal increase in interest costs arising out of higher working capital utilization. The PBILDT interest coverage for 9MFY20 (refers to period: April 01, 2019 to December 31, 2020) was reported at 2.98x.

Reputed client albeit reduction in order position: DDEL primarily caters for multinational OEMs of power generation equipment, engineering, procurement and construction (EPC) contractors serving power, process and oil and gas industry. The company's clientele include companies like HPCL-Mittal Energy Limited (HMEL), Mitsubishi Hitachi Power Systems (MHPS), General Electric (GE), Dangote, Nooter Eriksen, Toshiba, Doosan, L&T, Thermax and BHEL which have been providing repeat orders to the company. However, as on April 01, 2020, DDEL's order book stood reduced at Rs.358.74 crore, which was around 0.58x of FY20 operating income. However, the management expects to convert substantial portion of the orders in its pipeline, which it estimates at Rs.586 cr as on April 01, 2020.

Key Rating Weakness

Working capital intensive nature of operations: Considering the nature of DDEL's business, its operations are working capital intensive with elongated collection period and inventory holdings. The operating cycle of the company increased significantly from 275 days in FY18 to 314 days in FY19. The average receivables days increased from 167 days in FY18 to 178 days in FY19 and inventory days increased from 164 days in FY18 to 207 days in FY19. However, despite the increase in working capital requirements, the company has adequate working capital lines available to support its operations. Furthermore, as informed by the company, there has been a reduction in levels of debtors and inventories as on March 2020, signifying an improved working capital management.

Exposure towards subsidiaries: As on March 31, 2020, total investments by DDEL in subsidiaries increased to Rs.57.10 cr [according to provisional figures (prov.)] (PY: Rs.55.86 cr). The company has also provided support to subsidiaries to service debt and for operational support in form of loans and advances which stood at Rs.58.94 cr as on March 31, 2020 (Prov.) (PY: Rs.33.55 cr). Also, the bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of Rs.82.80 cr as on March 31, 2020 (Prov.) (PY: Rs.75.24 cr). Envisaged improvement in operational performance of subsidiaries and any higher than expected support provided by DDEL shall remain key monitorables.

Industry outlook and prospects: Relatively large investments and technical qualification requirements restricts entry of new players specialized in pre-fabricated piping business. Due to its cost advantage, India is becoming a hub of energy equipment OEMs (Original Equipment Manufacturers). Besides, with offsite piping happening in other process industries and established credentials of the company leading to newer export orders, long-term prospects of industry players like DDEL remain stable.

Adequate Liquidity

The company has nearly Rs.60 crore of unutilized fund based limits as its average fund based working capital utilization was around 75% for the trailing 12 months ending February 2020. Also, the company has inter-changeability between non-fund based limits and fund based limits to the extent of Rs.40 crore, in addition to the fund-based limits of Rs.200 crore, thereby providing additional cushion. Its current ratio as on March 31, 2019 stood moderate at 1.28x (PY: 1.37x). The company has debt repayment obligation amounting to Rs.6.70 crore in FY21 and general purpose capital expenditure for maintenance of the fixed assets to be funded largely by internal accruals.

Analytical approach: Standalone after factoring in the group exposures

Applicable criteria -

Criteria on assigning outlook and credit watch to Credit Ratings
CARE's policy on default recognition
CARE's rating methodology on financial ratios – Non-financial sector
CARE's criteria for short term instruments
Rating Methodology-Manufacturing Companies
Rating Methodology: Factoring Linkages in Ratings

About the Company

DDEL was incorporated on March 21, 1988 and provides design, detailed engineering and fabrication of pressure piping systems to clients across diversified industries such as power, process and oil & gas. DDEL is a leading private sector manufacturer of piping systems in India and amongst the top ten in the world. The company's manufacturing range includes high-pressure piping systems, induction pipe bends, pipe fittings, pressure vessels, hanger & support and other tailor-made fabricated components. The company specialises in alloy steel P91, P92 piping fabrication along with air quench P91 induction bend technology and also offers a wide range of engineering services for advanced piping solutions.

The company has a manufacturing facility with an installed capacity of 36,000 MT (carbon-steel equivalent) in Palwal District, Haryana adjoining Faridabad as on March 31, 2019 and an engineering office in Chennai. It has in-house fittings manufacturing facility, dedicated design & engineering division and induction bending section. The company is an ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certified company and a certified manufacturer of pipe spools and pipe fittings under the purview of pressure equipment directive (PED) norms, ASME Code Stamp Piping, IBR and other industrial standards. DDEL also operates a biomass power plant of 8 MW capacity at Abohar, Punjab.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	536.02	536.50
PBILDT	95.54	92.71
PAT	19.38	31.71
Overall gearing (times)	0.92	0.79
Interest coverage (times)	3.47	3.20

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 facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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	-	-	2026	30.96	CARE A-; Negative
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	297.00	CARE A-; Negative / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	274.24	CARE A2
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A-; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	205.00	CARE A-; Negative / 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 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.	Term Loan-Long Term	LT	30.96	CARE A-; Negative	-	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (31-Jan-19)	1)CARE A-; Stable (05-Oct-17)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	297.00	CARE A-; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2 (09-Oct-19)	1)CARE A-; Stable / CARE A2 (31-Jan-19)	1)CARE A-; Stable / CARE A2 (05-Oct-17)
3.	Non-fund-based - ST-Letter of credit	ST	274.24	CARE A2	-	1)CARE A2 (09-Oct-19)	1)CARE A2 (31-Jan-19)	1)CARE A2 (05-Oct-17)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Negative	-	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (31-Jan-19)	1)CARE A-; Stable (05-Oct-17)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	205.00	CARE A-; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2 (09-Oct-19)	1)CARE A-; Stable / CARE A2 (31-Jan-19)	1)CARE A-; Stable / CARE A2 (05-Oct-17)

Annexure-3: Details of covenants - NA

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.*

Contact us

Media Contact
Name-Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name- Mr. Ajay Dhaka
Contact no. - +91-11-45333218
Email ID- ajay.dhaka@careratings.com

Business Development Contact
Name- Ms. Swati Agarwal
Contact no. : +91-11-45333200
Email ID: swati.agarwal@careratings.com

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.