DEE Development Engineers Limited

November 26, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	46.51 (Enhanced from 40.96)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	503.20 (Enhanced from 502.00)	CARE A-; Negative / CARE A2 (Single A Minus ; Outlook: Negative/ A Two)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A2 (A Two)	Assigned
Short Term Bank Facilities	257.49 (Reduced from 274.24)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**813.20 (Rs. Eight Hundred Thirteen Crore and Twenty Lakhs 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 in piping systems business, 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 improving financial risk on standalone basis marked by improvement in gearing and debt coverage metrics, and its adequate liquidity position. However, the ratings are constrained by the company's subdued order book position, working capital intensive nature of its operations and its significant exposure towards group companies.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the order book on sustained basis
- Reduction in operating cycle below 180 days.
- Achievement of self-sustenance by subsidiaries on sustained basis

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

- Elongation in operating cycle beyond 300 days
- Stagnant or diminishing order book
- Operating margins declining below 12%
- Deterioration in performance of subsidiaries or/and increase in exposure towards subsidiaries

Outlook: Negative

The outlook continues to be negative on account of the persistently subdued order book position and resultantly limited revenue visibility for the company for the medium term. The outlook may be revised to stable if the company is able to report sustained improvement in order book position thereby ensuring better visibility for the future revenues and cash flows.

Detailed description of the 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 significant experience of more than 3 decades in the piping systems business. He is supported by a team of professionals who have had a long experience in their respective fields. The company has been running operations since 2003 and is one of the leading players in the pre-fabrication piping industry in India and has also built up strong credentials over the years in the export market driven by its strong technical capabilities and product performance. In August 2015, the 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. Carlyle is planning to offload its stake and CARE believes that exit of Carlyle will be neutral from the perspective of DDEL's credit profile as the company had not guaranteed any specified returns to the investor.

Steady operational performance: DDEL's total operating income increased y-o-y to Rs 637.94 cr during FY20 (refers to period: April 01 to March 31) (PY: Rs536.50 cr) mainly on account of higher execution of orders. However, the PBILDT margin and PAT margin of the company moderated to 15.04% and 4.32% (PY: 17.28% and 5.91%) respectively due to increase in the cost of raw material and interest expense. DDEL reported a GCA of Rs 47.41 cr in FY20 (PY: Rs 50.35 cr). During Q1FY21, DDEL reported a lower total operating income of Rs. 82.80 crore with PBILDT of Rs. 9.82 crores and PAT of Rs. 0.45 crores amid impact of lockdown in an otherwise historically weak quarter for the company.

Improving standalone financial risk profile: The overall gearing improved and stood comfortable at 0.53x as on March 31, 2020 (PY: 0.79x) on account of repayment of term loan. Total debt to GCA showed an improving trend to 5.22x in FY20 (FY19: 7.00x and FY18: 9.38x). However, the interest coverage ratio moderated to 2.80x (PY: 3.20) due to increase in interest expense mainly due to increase in leased liability as per IND AS.

Reputed clientele albeit low order book position: DDEL primarily 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. The company's clientele includes companies like 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. As on November 10, 2020, DDEL has relatively lower order book of Rs. 361.30 crore, which is only 0.57x of FY20 total income and provides short–term revenue visibility for second half of FY21. However, the management expects to get substantial orders from orders in pipeline which stood at around Rs 1,000 cr as on November 01, 2020. DDEL has a conversion rate of 45%-55% and the orders are expected to be finalized by the end of the current financial year.

Key Rating Weaknesses

Working capital intensive nature of operations: Owing to the nature of its business, DDEL's operations are working capital intensive with elongated collection period and substantial inventory holdings. The operating cycle of the company improved, yet remained high at 232 days in FY20 (PY: 314 days). The average receivables days reduced from 178 days in FY19 to 119 days in FY20 amid better order execution and faster recovery of dues from customers, inventory days also reduced from 207 days in FY19 to 164 days in FY20. However, despite high working capital requirements, the company has adequate working capital lines available to support its operations.

Exposure towards subsidiaries: As on March 31, 2020, total investments by DDEL in subsidiaries increased to Rs 57.11 cr (PY: 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 62.05 cr as on March 31, 2020 (PY: 33.55 cr). Further, the bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of Rs 91.08 cr as on March 31, 2020 (PY: Rs 75.25 cr). The envisaged improvement in operational performance of subsidiaries and any higher than expected support provided by DDEL shall be crucial for the company's credit profile and shall remain a key monitorable.

Adequate Liquidity: Average fund based working capital utilization stood low at 66.96% for trailing 12 months ended September, 2020. Also, the company has inter-changeability from non-fund based limits to fund based limits to the extent of Rs.40 crore, in addition to the fund-based limits of Rs. 190 crore for piping division and Rs. 10 crore for power division which provide additional cushion. During FY21, DDEL is expected to report a GCA of Rs 41.40 cr as against term loan repayment of Rs 21.74 cr including debt servicing for the subsidiaries with capex of Rs 10.12 cr to be done by availing a fresh term loan.

Prospects: Relatively large investments and technical qualification requirements restrict entry of new players in pre-fabricated piping business. Due to cost advantage, India is becoming a hub of energy equipment OEMs. Also, with offsite piping happening in other process industries and established credentials of the company leading to newer export orders, long-term prospects of DDEL remain stable. DDEL does not have any standalone competitors in the Indian market, its main competitors are in international markets Korea, Turkey among other countries. During FY20, the exports of the company contributed to 26.30% of total revenue in FY20 (PY: 52.15%)

Analytical approach: Standalone after factoring in group exposures

Applicable Criteria
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition

Rating Methodology- Private Power Producers
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Factoring Linkages Parent Sub JV Group
Rating Methodology- Manufacturing Companies

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 specializes 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, 2020 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)	FY19 (A)	FY20 (A)
Total operating income	536.50	637.94
PBILDT	92.71	95.94
PAT	31.71	27.57
Overall gearing (times)	0.79	0.53
Interest coverage (times)	3.20	2.80

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Mr Atul Krishan Bansal, son of Mr. K.L. Bansal, passed away on November 17, 2020 due to cardiac arrest. He was based out of Thailand and was looking after the operations of DDEL's subsidiary in Thailand.

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
Term Loan-Long Term	-	-	2026	25.21	CARE A-; Negative
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	298.20	CARE A-; Negative / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	257.49	CARE A2
Fund-based - LT-Cash Credit	-	-	-	21.30	CARE A-; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	205.00	CARE A-; Negative / CARE A2
Fund-based-Short Term	-	-	-	6.00	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	25.21	CARE A-; Negative	1)CARE A-; Negative (05-May-20)	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	298.20	CARE A-; Negative / CARE A2	1)CARE A-; Negative / CARE A2 (05-May-20)	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	257.49	CARE A2	1)CARE A2 (05-May-20)	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	21.30	CARE A-; Negative	1)CARE A-; Negative (05-May-20)	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 (05-May-20)	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)
6.	Fund-based-Short Term	ST	6.00	CARE A2	-	-	-	-

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 the 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 Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple
6.	Term Loan-Long Term	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 for any clarifications.*

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