

DGP Steel Star Engineering Private Limited

November 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	4.50	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	3.00	CARE A4 (A Four)	Assigned
Total facilities	7.50 (Rupees Seven Crore and Fifty Lakh Only)		

**Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of DGP Steel Star Engineering Private Limited (DGP) are constrained by its small scale of operation with low profitability margins, risk associated with participating in tenders and intense competition in the industry, working capital intense nature of business and volatility associated with fluctuation in input prices and moderate capital structure with moderate debt coverage indicators. However, the aforesaid constraints are partially offset by its experienced management with long track record of operations and satisfactory order book position.

Rating Sensitivities

Positive Factors

- Increase in scale of operations of the company on a sustainable basis.
- Sustained improvement in profitability margins over a period of time.
- Improvement in capital structure with overall gearing ratio remaining at comfortable level on a sustainable basis.
- Ability to timely execute and improve order book position and timely receipt of contract proceeds.

Negative Factors

- De-growth in scale of operations and deterioration in profitability margins significantly on a sustainable basis.
- Significant deterioration in capital structure with overall gearing ratio becoming very high on a sustainable basis primarily led by elongation in its working capital cycle along with significant decline in its gross cash accruals (GCA) adversely affecting its debt coverage indicators.
- Inability to execute orders within stipulated time period on a sustained basis resulting in non-receipt of contract proceeds and significant decline in order book position.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operation with low profitability margins

DGP Steel Star Engineering Private Limited has relatively small scale of operation over the last three financial years. Moreover, the total operating income of the company have witnessed decline during the last financial year mainly on account of lower inflow of orders and delayed certifications received for the work executed. Further, the same remained small marked by total operating income of Rs.8.50 crore (Rs.12.97 crore in FY18) with a PAT of Rs.0.09 crore (Rs.0.17 crore in FY18) in FY19. The profitability margin of the company remained low marked by PBILDT margin of 11.93% (FY18: 8.72%) and PAT margin of 1.02% (FY18: 1.32%) in FY19. The capital employed of the company remained low at Rs.8.36 crore as on March 31, 2019.

Risk associated with participating in tenders and intense competition in the industry

The entity has to bid for the contracts based on tenders opened by the various government departments and public sector companies. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The entity receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of one to two years). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry.

Working capital intensive nature of business

The operations of the entity remained working capital intensive as the entity executes orders mainly for government departments and reputed public sector units. Accordingly the average collection period was high during last three years due to procedural delays by the government authorities which exerted pressure on liquidity position. Further, the same deteriorated in FY19 mainly on account of bill raised for completion of work; however, the payment not received for the same. The average inventory period (mainly work-in-progress) remained high during FY18 and FY19. The average collection period remained in the range of 126-227 days during FY17-FY19 and average inventory days remained in the range of 105-213 days during FY17-FY18. Due to its working capital intensive nature of operations, the entity stretches its

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

payments to suppliers for more than two to three months. Accordingly, the average utilisation of working capital was on the higher side at around 95% during last 12 months ended September 2019.

Volatility associated with fluctuations in input prices

The major input materials for the entity are steel rods, cement, sanitary items, bricks, sand etc. the prices of which are volatile. However, the orders executed by the entity contain price escalation clause on the orders which mitigate the risk to a certain extent. This apart, any increase in labour prices will also impact its profitability being present in a highly labour intensive industry.

Moderate capital structure with moderate debt coverage indicators

The capital structure of the company remained moderate with overall gearing ratio of 1.39x (1.41x as on March 31, 2018) as on March 31, 2019. Moreover, the debt coverage indicators of the company also remained moderate marked by interest coverage of 1.71x (FY17: 1.73x) and total debt to GCA of 13.69x (FY17: 9.84x) in FY19 (provisional). Marginal deterioration in interest coverage ratio was on account of lower PBILDT level in FY19 (provisional). Furthermore, deterioration in total debt to GCA was on account of lower GCA level during the period coupled with higher debt levels as on the balance sheet date.

Key Rating Strengths

Experienced management with long track record of operations

DGP Steel Star Engineering Private Limited was initially established in the year 1973 as a partnership firm however the same was converted into Private Limited Company in the year 1990. Since its inception the company is engaged in civil engineering works mainly undertakes fabrication, piping and various structural works on behalf of government departments and other reputed public sector units. Mr. Partha Sarathi Mukherjee (Director) and Mr. Sandip Mukherjee (Director) has more than three decades of experience at executing several projects for government entities and public sector units hence having strong understanding of the local dynamics and healthy relation with customers and suppliers. They look after the day to day operations of the entity along with other technical and non-technical professionals who are having long experience in this industry.

Satisfactory order book position of the entity

DGP Steel Star Engineering Private Limited has satisfactory order book position of Rs.25.03 crore (which is 2.94x of FY19 turnover) as on September 2019, which is expected to be completed by December 2020.

Liquidity: Stretched

The overall liquidity position of the company remained stretched marked by elongated operating cycle of 364 days as on March 31, 2019 on account of higher inventory holding period and collection period. The average utilization of fund based limits remained high at around 95% during last 12 months ended September, 2019. The Gross cash accruals also remained moderate at Rs.0.36 crore as on March 31, 2019. The balance sheet shows moderate cash and bank balance amounting to Rs.1.96 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

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

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Company

DGP Steel Star Engineering Private Limited was initially established as a partnership firm by Mr. Partha Sarathi Mukherjee and Mr. Sandip Mukherjee however, the same was converted into private limited company in the year 1990 with its office located at Durgapur, West Bengal. Since its inception the company is engaged in civil engineering works mainly undertakes fabrication, piping and various structural works on behalf of government departments and other reputed public sector units

Mr. Partha Sarathi Mukherjee (Director) and Mr. Sandip Mukherjee (Director) has more than three decades of experience in civil construction industry. They look after the day to day operations of the entity along with other technical and non-technical professionals who are having long experience in this industry.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	12.97	8.50
PBILDT	1.13	1.01
PAT	0.17	0.09
Overall gearing (times)	0.17	0.09
Interest coverage (times)	0.17	0.09

A= Audited, Prov. = Provisional

Status of non-cooperation with previous CRA: Issuer Not Cooperating from CRISIL as per press release dated October 22, 2019.

Any other information: Not Applicable.

Rating History (Last three years): Please refer Annexure-2

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-Cash Credit	-	-	-	4.50	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	4.50	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4	-	-	-	-

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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