

Daulat Ram Engineering Services Private Limited

March 30, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	6.68 (reduced from Rs. 10.62 crore)	CARE D (Single D)	Reaffirmed
Long-term / Short-term Bank Facilities	90.00	CARE D/CARE D (Single D/ Single D)	Reaffirmed
Total Bank Facilities	96.68 (Rupees Ninety Six Crore and Sixty Eight Lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Daulat Ram Engineering Services Private Limited (DRPL) have been revised on account of on-going delays in servicing of its debt obligations due to its stressed liquidity and weak financial profile.

Rating Sensitivities

Positive factors

- Delay free track record of 90 days in servicing of debt obligations.

Detailed description of the key rating drivers

Key Rating Weaknesses

Ongoing delays in debt servicing on back of acute liquidity stress: As per interaction with the lender and bank statements submitted by the client on February 28, 2020, there have been delays in principle and interest repayment of the term loan along with instances of overdrawing in the cash credit limit exceeding 30 days on account of an acute liquidity stress. This comes on the back of considerable time lag in receipt of dues from its customers which includes various divisions of Indian Railways.

Weak financial risk profile with decline in scale of operations in FY19: DRPL's scale of operations declined significantly marked by a total operating income of Rs. 44.29 crore compared to Rs. 107.25 crore in FY18. This comes on the back of slower than expected pace of dispatches in orders. Further with the decline in scale of operations; the company's operating profitability also declined and PBILDT stood at Rs. 9.85 crore compared to Rs. 22.05 crore in the previous year. The fall in operating profitability combined with stable interest and depreciation cost translated into PAT and GCA of Rs. 1.81 crore and Rs. 4.44 crore as against Rs. 8.56 crore and Rs. 11.38 crore in FY18 respectively. DRPL's overall gearing stood at 1.31x (P.Y. 0.87x) on the back of increase working capital borrowings. Additionally the company's debt coverage indicators weakened with an interest coverage of 1.52x compared to 3.15x in FY18 and a TD/GCA of 15 years compared to 3.70 years in the previous year.

Elongated operating capital: The operations of DRPL are highly working capital intensive in nature with investment required in both inventory [due to time taken for manufacturing as well as procedure of pre-inspection and trials by Indian Railways (IR)] and receivables (due to credit period of around 60-90 days offered for various products). DRPL's products are customized for their applications and its largest customer, IR, has a procedure of inspecting and checking of products prior to their dispatch, translating into a considerable inventory holding requirement. DRPL's working capital cycle further lengthened from 173 days in FY18 to 564 days in FY19, primarily due to an increase in inventory holding which stood at Rs. 56.57 crore as on FY19 compared to Rs. 42.05 crore as on FY18 despite the decline in total operating income. The utilization of DRPL's working capital limits also remained almost full for the last 12 months ended January 2020.

Key Rating Strengths

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

Experienced promoters with established track record: The promoters of DRPL namely Chandra Prakash Sharma, Rachana Sharma and Pulkit Sharma have a combined experience of over 50 years in the area of locomotive equipment manufacturing. The promoters collectively look after the operations of DRPL and are responsible for all the strategic decisions. They are suitably aided by professionals at various levels for management of daily operations of the company. DRPL also have over two decades long experience in the industry.

Analytical Approach: Standalone

Applicable Criteria:

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

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

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

About the company

Raisen, Madhya Pradesh based Daulat Ram Engineering Services Private Limited (DRPL) [CIN: U74210MP1997PTC011601] was incorporated in 1997 by Mr. Chandra Prakash Sharma. Initially, the company was engaged in repair, reconditioning and rehabilitation of dynamic braking resistors for Indian Railways. Later, DRPL commenced manufacturing of motors, traction motors and alternators, auxiliary generator, oil cooling blower, vacuum toilet and many other engineering products which find its application in railway locomotives and coaches. It supplies its products to various diesel locomotive manufacturing units of Indian Railways including DMW – Patiala, DLW – Varanasi, ICF – Chennai and National Railway Equipment Company (NREC) for onward supply to Indian Railways. The company also manufacturing and installs escalators at various railway stations.

Brief financials of DRPL are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	107.25	44.29
PBILDT	22.05	9.85
PAT	8.56	1.81
Overall Gearing (times)	0.87	1.31
Interest Coverage (times)	3.15	1.52

A: Audited

During 10MFY20, company had reported TOI of Rs.49.36 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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-Term Loan	-	-	January 2024	6.68	CARE D
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	50.00	CARE D / CARE D
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	40.00	CARE D / CARE D

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-Term Loan	LT	6.68	CARE D	1)CARE D (02-Mar-20) 2)CARE BB+; Stable (03-Apr-19)	1)CARE BB+; Stable (04-Apr-18)	1)CARE BB; Stable (28-Apr-17)	-
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	50.00	CARE D / CARE D	1)CARE D / CARE D (02-Mar-20) 2)CARE BB+; Stable / CARE A4+ (03-Apr-19)	1)CARE BB+; Stable / CARE A4+ (04-Apr-18)	1)CARE BB; Stable / CARE A4 (28-Apr-17)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	40.00	CARE D / CARE D	1)CARE D / CARE D (02-Mar-20) 2)CARE BB+; Stable / CARE A4+ (03-Apr-19)	1)CARE BB+; Stable / CARE A4+ (04-Apr-18)	1)CARE BB; Stable / CARE A4 (28-Apr-17)	-

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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