Daulat Ram Engineering Services Private Limited

April 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	22.72 (enhanced from Rs.12.59 crore)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BB; Stable (Double B; Outlook: Stable)**
Long-term / Short-term Bank Facilities	90.00 (enhanced from Rs.25.22 crore)	**CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)**	**Revised from CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable / A Four)**
Total Bank Facilities	**112.72 (Rupees One Hundred Twelve Crore and Seventy Two Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings for the bank facilities of Daulat Ram Engineering Services Private Limited (DRPL) takes into account increase in its scale of operations with good execution of orders from its key customer, Indian Railways (IR) along with improvement in its debt coverage indicators and growth in its order book.

The ratings continue to draw strength from the vast experience of DRPL's promoters with established track record of operations and its stable profitability.

DRPL's ratings, however, continue to remain constrained on account of its working capital intensive nature of operations, vulnerability of its profitability to fluctuations in raw material prices and foreign exchange rates, tender driven procurement by its customers and customer concentration risk.

The ability of DRPL to further increase its scale of operations and profitability along with improvement in its debt coverage indicators and liquidity would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Increase in scale of operations: DRPL's scale of operations increased by 29% y-o-y in FY17, with increase in products supplied to IR driven by its increased capex to modernize its fleet capacity. Over the years, DRPL has developed products that are used by IR for various purposes, primarily for its diesel-electric locomotives (DECs) and diesel electric tower cars (DETCs) along with other equipment including HVAC systems and escalators. DRPL's PBILDT margin moderated by 207 bps, but still remained healthy at 13.28% during FY17. Interest costs remained stable amidst a stable debt profile. PAT margin also moderated by 113 bps, but the decline in the same was lower than that in the operating profitability due to increase in scale of operations. Cash accruals remained largely in line with that in the previous year.

Growth in order book: DRPL had an outstanding order book of Rs.310 crore as on December 31, 2017 (4.92x of FY17 total operating income), compared with Rs.159 crore as on March 17, 2017. The growth in the order book provides healthy revenue visibility in the medium term, as it is to be executed over the next 2-3 years. A majority of the orders consisted of supply of DETCs and DELs (83% of DRPL's outstanding order book), where the ticket size is larger compared to other products and the supply is discrete in nature.

Moderate overall gearing and debt coverage indicators: DRPL's overall gearing improved marginally to 1.11x as on March 31, 2017, with accretion of profits to networth along with infusion of equity by the promoters (Rs.4.00 crore infused during FY17), while the total debt availed remained largely stable. Further, with increase in scale of operations

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

and stable profitability, DRPL's debt coverage indicators improved marked by interest coverage of 2.51x and total debt/GCA of 6.71x in FY17.

Experienced and resourceful promoters with established track record: DRPL's promoters have a rich experience in 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 for daily operations of the company. The promoters continue to support the operations of the company by way of infusion of equity of Rs.4.00 crore in FY17 and another Rs.2.00 crore in H1FY18.

Key Rating Weaknesses

Working capital intensive nature of operations: DRPL's operations are highly working capital intensive in nature with investment required in both inventory and receivables. DRPL's products are customized for their applications and IR has a procedure of inspecting and checking of products prior to their dispatch, translating into a considerable inventory holding requirement. Further, DRPL needs to offer a credit period of around 60-90 days, but the payment generally takes a little longer. During FY17, DRPL's operating cycle improved to 133 days from 155 days in FY16, with lower inventory holding period during the year. The utilization of the fund based limits also remained high at more than 90% during the 12 months ended January 2018, underlining DRPL's moderate liquidity.

Vulnerability of profit margins to fluctuations in raw material prices: The primary raw materials used by DRPL are copper, aluminium and steel for various equipment that it manufactures. The prices of these raw materials are volatile in nature and thus DRPL'S profitability is exposed to risk of adverse movement in prices of these commodities, particularly as its orders are fixed price in nature.

Tender-driven nature of industry leading to intense competition: IR is the major customer for DRPL and as a majority of IR's procurement is tender based, its DRPL is exposed to intense competition in its business. Furthermore, DRPL faces competition from mid-sized players operating at a regional level and thus it has to continuously innovate and improve its product offering and has to price it competitively.

Customer concentration risk: Indian Railways is the prime customer of DRPL, contributing more than 90% of its revenue. Any slowdown in investment by IR may adversely impact DRPL's scale of operations and profitability. However, due to the distributed nature of railway procurement, the orders are placed by various divisional offices and independent factories (locomotive and coach factories) and hence, the client concentration reduces to that extent. Also, DRPL has well-established and long standing relationship with various procurement centres of IR and has regularly received repeat orders from them. DRPL has also started focusing on exports to grow its business and reduce its dependence on the domestic market.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
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 Pvt. Ltd. (DRPL) 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, alternators, auxiliary generators, oil cooled blower and similar engineering products which find application in railway locomotives. It supplies its products to various diesel locomotive manufacturing units of Indian Railways. DRPL also exports its products to private railway entities in USA, which contributed 5% of its revenue in FY17. Recently, DRPL has also commenced manufacturing and installation of escalators at various railway stations as well as manufacturing of vacuum toilet systems for rail coaches.

Brief financials of DRPL are tabulated below:

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	92.55	120.09
PBILDT	14.21	15.95
PAT	3.66	3.39
Overall gearing (times)	1.28	1.11
Interest coverage (times)	2.23	2.51

A- Audited

Further, during H1FY18, DRPL reported a total operating income of Rs.47.88 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

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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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		-	December 2022	22.72	CARE BB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	37.78	CARE BB+; Stable / CARE A4+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	50.00	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST	-	-	-	2.22	CARE BB+; Stable / 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	22.72	CARE BB+; Stable	-	1)CARE BB; Stable (28-Apr-17)	-	1)CARE BB (12-Feb-16) 2)CARE BB- (07-Apr-15)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	50.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (28-Apr-17)	-	1)CARE BB / CARE A4 (12-Feb-16) 2)CARE BB- (07-Apr-15)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	37.78	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (28-Apr-17)	-	1)CARE BB / CARE A4 (12-Feb-16) 2)CARE BB- / CARE A4 (07-Apr-15)
4.	Non-fund-based - LT/ ST	LT/ST	2.22	CARE BB+; Stable / CARE A4+	-	1)CARE A4 (28-Apr-17)	-	-

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