

Daulat Ram Engineering Services Private Limited

April 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	12.59 (reduced from 12.75)	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities	23.00	CARE BB; Stable/CARE A4 [Double B; Outlook: Stable/ A Four]	Reaffirmed
Short-term Bank Facilities	2.22 (enhanced from 2.00)	CARE A4 [A Four]	Reaffirmed
Total	37.81 (Rupees Thirty Seven crore and Eighty One lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Daulat Ram Engineering Services Private Limited (DRESPL) continue to remain constrained on account of its working capital intensive nature of operations, vulnerability of its profit margins to fluctuations in raw material prices and foreign exchange rates and its presence in tender driven nature of industry leading to increased competition.

The ratings, however, continue to draw strength from the wide experience of the promoters with established track record of operations. The reaffirmation of the ratings also factors in Increase in turnover and improvement in profit margins and cash accruals of DRESPL during FY16 (refers to the period April 1 to March 31), its moderately comfortable capital structure and moderate debt coverage indicators.

The ability of DRESPL to increase its scale of operations and profit margins with further improvement in debt coverage indicators and liquidity position would remain the key rating sensitivities.

Detailed Description of the key rating drivers

Key Rating Weaknesses

Moderate liquidity position

Liquidity position continued to remain moderate marked by current and quick ratio of 1.19 times and 0.63 times as on March 31, 2016 (1.19 times and 0.58 times as on March 31, 2015). Operating cycle further elongated to 155 days in FY16 as against 129 days in FY15 primarily due to higher investment in inventory and increase in collection period as well due to higher quantum of orders received during last two months which lead to increase in Inventory and receivables as at March 31, 2016. Its cash credit limits remained 95% utilized during last 12 months period ended February 2017.

Vulnerability of profit margins to fluctuations in raw material prices and foreign exchange rates

The primary raw material used by DESPL arc aluminium casting, copper rods, silver breezing rod, stamping, mild steel casting and other material like seals, fasteners, etc. The prices of these raw materials are volatile in nature.

DRESPL's profitability also remained exposed to fluctuations in foreign exchange rates, as the company derives some of its revenues from exports.

Tender-driven nature of industry leading to increased competition

DRESPL is engaged in tender driven business. Furthermore, DRESPL faces stiff competition from leading players like Crompton Greaves Ltd, L&T Ltd., Kirloskar Electric Company Ltd., Siemens India Ltd. along with many medium scale players present at the regional level and thus it has to continuously innovate and improve its product offering and has to price it competitively.

Key Rating Strengths

Vast experience of the promoter with an established track record of operations

Mr Chander Prakash Sharma, the promoter and managing director of DRESPL, is a management graduate with over three decades of professional experience in the industry. Prior to setting up DRESPL, he was involved in the same business through other partnership concern, M/s Daulat Ram Industries (DRI) Bhopal, an enterprise engaged in the manufacturing of all types of resistor for Indian Railways including dynamic braking resistors. Furthermore, DRESPL has a technically sound second tier management team which supports the top level management in decision making process. DRESPL has been successfully executing many orders over the last two decades and has built strong relation with the suppliers and customers.

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

Increase in turnover and improvement in profit margins and cash accruals during FY16

During the past three years ending FY16, the TOI of DRESPL has grown at a CAGR of 11.94%. During FY16, Total Operating Income (TOI) of DRESPL has increased by 11.04% to Rs.92.55 crore from Rs.83.35 crore in FY15, mainly on account of improved orders from its customers as well as timely execution of the same. During FY16, PBILDT margin has improved by 122 bps to 15.35% from 14.13% in FY15. GCA improved compared to last year at Rs.6.74 crore during FY16 as compared with Rs.5.51 crore during FY15.

Moderately Comfortable capital structure and moderate debt coverage indicators

Capital structure of DRESPL has continued to remain at moderately comfortable level as on March 31, 2016, marked by its overall gearing ratio of 1.07 times (as against 1.28 times as on March 31, 2015). Improvement in gearing level was primarily due to increase in net worth base owing acreation of healthy profits to reserves. Total debt to gross cash accrual improved to 5.83 times as on March 31, 2016, as compared with 7.61 times as on March 31, 2015.

Analytical Approach – Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

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

About the Company

Raisen-based (Madhya Pradesh), DRESPL was incorporated in 1997 by Mr Chander Prakash Sharma. Initially, the company was engaged in repair, reconditioning and rehabilitation of dynamic braking resistors for Indian Railways. Later, DRESPL commenced manufacturing of AC/DC Motors, traction alternators, auxiliary generator, traction motors, oil cooling blower and many other engineering products which find its application largely in railway locomotives. It largely supplies its products to Diesel Loco Modernisation Works (DMW), Patiala, Diesel Locomotive Works (DLW), Varanasi, Chittaranjan Locomotive Works (CLW), Chittaranjan, and Bharat Heavy Electricals Limited (BHEL).

During FY16, DRESPL has reported a PAT of Rs.5.67 crore on a total operating income of Rs.92.55 crore as against PAT of Rs.5.44 crore on a total operating income of Rs.83.35 crore in FY15. During 11MFY17 (refers to the period April 1, 2016 to February 28, 2017), DRESPL has reported a total operating income of Rs.103 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	November, 2017	0.29	CARE BB; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	22.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A4
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1.00	CARE BB; Stable / CARE A4
Term Loan-Long Term	-	-	August, 2020	9.09	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	September, 2022	3.21	CARE BB; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.22	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.29	CARE BB; Stable	-	-	1)CARE BB (12-Feb-16) 2)CARE BB-(07-Apr-15)	1)CARE BB-(25-Nov-14)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	22.00	CARE BB; Stable / CARE A4	-	-	1)CARE BB / CARE A4 (12-Feb-16) 2)CARE BB-(07-Apr-15)	1)CARE BB-(25-Nov-14)
3.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A4	-	-	1)CARE A4 (12-Feb-16) 2)CARE A4 (07-Apr-15)	1)CARE A4 (25-Nov-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.00	CARE BB; Stable / CARE A4	-	-	1)CARE BB / CARE A4 (12-Feb-16) 2)CARE BB- / CARE A4 (07-Apr-15)	1)CARE BB- / CARE A4 (25-Nov-14)
5.	Term Loan-Long Term	LT	9.09	CARE BB; Stable	-	-	1)CARE BB (12-Feb-16) 2)CARE BB-(07-Apr-15)	-
6.	Fund-based - LT-Term Loan	LT	3.21	CARE BB; Stable	-	-	-	-
7.	Non-fund-based - ST-Credit Exposure Limit	ST	0.22	CARE A4	-	-	-	-

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