Dee Development Engineers Limited

January 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	31.15 (reduced from 49.36)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	298.90 (enhanced from 176)	**CARE A2 (A Two)**	**Reaffirmed**
Long/Short-term Bank Facilities	464.25 (reduced from 514)	**CARE A-; Stable/CARE A2 (Single A Minus; Outlook: Stable/A Two)**	**Reaffirmed**
Total	**794.30 (Rs. Seven Hundred Ninety Four crore and Thirty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dee Development Engineers Limited (DDEL) continue to derive strength from the experienced promoters, long track-record of operations, strong order book position, established relationships with reputed clientele, improvement in standalone financial performance during FY18, comfortable solvency position and moderate debt coverage indicators. However, the ratings are constrained by working capital intensive operations of the company characterized by elongated operating cycle and higher support towards its subsidiaries in FY19.

Going forward, the ability of the company to manage its working capital cycle, efficiently execute its order book, build large orders by leveraging on its diversified presence across geographies in the Power and Oil & Gas segments would determine the company's growth prospects and remain key rating sensitivities. Furthermore, timely execution and stabilization of the subsidiaries' operating performance while maintaining the liquidity and capital structure of the company within envisaged levels and any unanticipated leverage at the company/promoter level to provide Carlyle an exit shall also be key rating monitorables.

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 vast experience in the area of operations of the company. He is supported by a team of professionals who have vast experience in their respective fields. The company 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 foothold and product performance. The company operates mainly in the pre-fabricated piping business, besides this it also has a biomass power plant. In August 2015, Carlyle group acquired significant minority 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 Carlyle members in the board of directors of DDEL.

Strong order book position and reputed clientele

DDEL primarily caters to multinational OEMs of power generation equipments, Engineering, Procurement and Construction (EPC) contractors serving power, process and oil and gas. Clientele of the company includes companies like HPCL-Mittal Energy Limited (HMEL), 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 January 2019, DDEL has an order book of Rs.702 crore, which is 1.31x of FY18 total income. The recently order secured from HMEL worth Rs.184 crore is the largest P91 fabrication order in the company's history.

Improvement in financial performance during FY18; comfortable solvency position and moderate debt coverage indicators

During FY18, the company booked total operating income of Rs.536.02 crore (y-o-y increase of 7.16%) and PAT of Rs.19.38 crore (y-o-y increase of 4.42%). PBILDT margin improved from 15.63% in FY17 to 17.82% in FY18 and PAT margin was stable at 3.62% in FY18. The financial performance has been impacted in the last two years on account of change in

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

sales composition towards carbon steel pipes and fall in the prices of steel, even though the company registered a higher tonnage in FY18 as compared to FY17 and FY16.
The overall gearing ratio increased to 0.72x as on March 31, 2018 as compared to 0.57x as on March 31, 2017, due to an increase in short term borrowings, however, it continued to remain at comfortable levels. Interest coverage ratio improved from 2.80x during FY17 to 3.47x during FY18. The company also operates a power plant situated at Abohar. The PLF levels for FY18 were satisfactory at 75.30%.

Stable outlook for industry
Relatively large investments and technical qualification requirements restricts entry of new players specialized in prefabricated 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.

Key Rating Weaknesses
High working capital intensity
Owing to the nature of business, operations of the company are working capital intensive with high average collection period and inventory requirements. The operating cycle of the company increased from 236 days in FY17 to 275 days in FY18. The average receivables days increased from 156 days in FY17 to 167 days in FY18 and inventory days increased from 146 days in FY17 to 164 days in FY18. However, despite the increase in working capital requirements, the company has adequate working capital lines available to support its operations and the average working capital utilisation of fund based limits remained moderately stable at about 76%.

Support to subsidiaries
DDEL's wholly-owned subsidiary in Thailand named Dee Piping Systems (Thailand) Co., Ltd. (Dee, Thailand) commenced operations in September 2017, with an initial capacity of 7,000 MTPA, which is expected to be ramped up to 21,000 MT over the next few years. The facility is strategically located and has resulted in addition of new clients to DEE's portfolio such as Japan Gas Corporation, Black & Veatch, VOGT Power International etc. Dee Thailand is expected to have achieved a revenue of USD 1.5 million in CY18 and has an order book of THB 235.95 Million (USD 7.87 Million) as of January 2019. DDEL has infused funds to the tune of Rs.50.21 crore in Dee, Thailand till October 31, 2018 (Rs.30.19 crore as on March 31, 2018). Though the subsidiary has required higher support from DDEL in FY19, going forward, with a sound order book position and stabilized operations in Dee, Thailand, further support is expected to be limited in FY20. Though the term debt of Dee Thailand would continue to be guaranteed by DDEL, however, it is expected that the subsidiary will be able to service its liabilities from its own cash flows. Nevertheless, higher than envisaged support extended to Dee, Thailand, going forward would remain a key rating monitorable.
Further, DDEL is setting up a greenfield unit viz. Dee Fabricom in Kutch, Gujarat, to cater to heavy metal fabrication projects in the areas of wind towers, railway bridges etc. and the plant is expected to commence operations in April 2019. The envisaged project cost is about Rs.28 crore, proposed to be financed through term loan of Rs.21 crore and equity of Rs.7 crore (of which Rs.3.5 crore has been infused as equity till October 31, 2018). The project is expected to achieve COD by March 31, 2019 and is not expected to require significant support from the parent due to its strategy of taking up orders on a job-work basis. However, the operational performance of DDEL's wholly-owned subsidiary, Malwa Power Private Limited (MPPL) has been satisfactory during FY18 and it is not expected to be supported by DDEL going forward. In addition, it is expected that there may be some recouping of loans and advances initially extended to this subsidiary by DDEL.

Private Equity investment
DDEL had received private equity (PE) investment from Carlyle in August 2015. The fund has continued to remain invested in the company for more than 3.5 years. Though there are no committed returns, however, considering the fund life constraints, if requirements arise at the company/promoter level to provide exit to the PE investor leading to any unanticipated leverage, it would be a key rating sensitivity.

Liquidity Analysis
The company has cash & bank balance of Rs.38.10 crore as on September 30, 2018. Of the gross repayment of Rs.19.10 crore due in FY19, the company has repaid Rs.15.80 crore till Q3FY19 and balance Rs.3.30 crore is due for repayment in Q4FY19. The working capital utilization levels stood at a moderate level of about 76% for the 12-months period ending November 2018. Also, the company has inter-changeability from non-fund based limits to fund based limits to the extent of Rs.45 crore, in addition to the fund-based limits of Rs.200 crore, which lends comfort.

Analytical approach: Standalone. Also, since the company has provided corporate guarantees for its wholly-owned subsidiaries (i.e. Malwa Power Private Limited, Dee Piping Systems Thailand and Dee Fabricom India Private Limited), the same is factored in the analysis.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

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, 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)	FY17 (A)	FY18 (A)
Total operating income	500.22	536.02
PBILDT	78.21	95.54
PAT	18.56	19.38
Overall gearing (times)	0.57	0.72
Interest coverage (times)	2.80	3.47

A: Audited

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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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	-	-	Jun-2024	21.15	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	274.25	CARE A-; Stable / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	298.90	CARE A2
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	190.00	CARE A-; Stable / 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 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.	Term Loan-Long Term	LT	21.15	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-17)	1)CARE A- (14-Oct-16) 2)CARE A- (13-Jul-16)	1)CARE BBB+ (09-Nov-15)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	274.25	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (05-Oct-17)	1)CARE A- / CARE A2 (14-Oct-16) 2)CARE A- / CARE A2 (13-Jul-16)	1)CARE BBB+ / CARE A3+ (09-Nov-15)
3.	Non-fund-based - ST-Letter of credit	ST	298.90	CARE A2	-	1)CARE A2 (05-Oct-17)	1)CARE A2 (14-Oct-16) 2)CARE A2 (13-Jul-16)	1)CARE A3+ (09-Nov-15)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-17)	1)CARE A- (14-Oct-16) 2)CARE A- (13-Jul-16)	1)CARE BBB+ (09-Nov-15)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	190.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (05-Oct-17)	1)CARE A- / CARE A2 (14-Oct-16) 2)CARE A- / CARE A2 (13-Jul-16)	1)CARE BBB+ / CARE A3+ (09-Nov-15)

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