Dee Development Engineers Limited

October 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	49.36 (reduced from 64.19)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	176 (enhanced from 153)	**CARE A2 (A Two)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	514 (reduced from 571)	**CARE A-; Stable/CARE A2 (Single A Minus; Outlook: Stable/A Two)**	**Reaffirmed**
Total	**739.36 (Rs. Seven Hundred Thirty Nine crore and Thirty Six 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) continues derive strength from the experienced promoters, long track-record of operations, established relationships with reputed clientele, improved order book position and comfortable solvency position and coverage indicators. However, the ratings are constrained by weak financial performance during FY17 and, working capital intensive operations of the company characterized by elongated operating cycle.
Going forward, the ability of the company to improve profitability margins, efficiently execute its order book, build large orders by leveraging on its diversified presence across geographies in the Power and Oil & Gas segments as well as benefiting from the global relationships of its equity partner would determine the company’s growth prospects and remains a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: DDEL was 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.

Improved order book position and reputed clientele: DDEL primarily caters to multinational OEMs of power generation equipments, Engineering, Procurement and Construction (EPC) contractors serving power generation, oil and gas and petrochemicals sector. Clientele of the company include companies like Mitsubishi Heavy Industries (MHI), GE, Nooter Eriksen, CMI, Siemens, Fluor, Thermax and BHEL which have been providing repeat orders to the company. As on September 25, 2017, the company has an order book of Rs. 698.06 crore (Rs. 482.03 crore as on May 01, 2016) which is

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

1.43x the FY17 operating income. With the improved order book and orders in pipe line, the company's revenue is expected to improve in the coming years.

Subsidiary in Thailand: During FY15, the company had set-up a wholly-owned subsidiary in Thailand named Dee Piping Systems (Thailand) Co., Ltd. (Dee, Thailand). DDEL has invested THB 117 Million (USD 3.4 Million or Rs.22.29 crore) in Dee, Thailand till March 31, 2017 and completed the asset acquisition (Land, Building & few Machinery) of a manufacturing facility in Thailand. The Thailand plant is in line with the Indian facility. Operations of the plant are expected to commence from October 2017 but expected to be ramped up from start of FY19.

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

Decline in revenue and profitability in FY17, although comfortable solvency position and coverage indicators,: During FY17, the company booked a total operating income of Rs. 487.62 crore, registering a decline of 25.84% over the previous year (Rs.657.56 crore in FY16) on account of moderate order book, fall in the prices of seamless pipes which is the major input for the company and change in sales composition towards carbon steel pipes, although the company did higher tonnage in FY17 as compared to FY16. During FY17, PBILDT & PAT margins stood at 13.81% & 3.08% respectively as compared to 15.41% & 3.95% respectively in FY16.

Overall gearing ratio of the company improved to 0.57x as on March 31, 2017 as compared to 0.83x as on March 31, 2016 on account of decline in borrowings. Interest coverage ratio also improved marginally to 2.58x during FY17 as compared to 2.48x in FY16 due to lower interest expenses. The company also operates a power plant situated at Abohar. The PLF levels for the period Jul-16 to Jul-17 are satisfactory at 75.84%.

High working capital intensity: Operating cycle of the company increased from 207 days in FY16 to 243 days in FY17. However, inventory days declined from 170 days in FY16 to 153 days in FY17. The average receivables days increased from 104 days in FY16 to 156 days in FY17. As on March 31, 2017, total debtors of the company stood at Rs.189.80 crore (Rs. 215.44 crore as on March 31, 2016). However, the company's working capital requirements, the average working capital utilisations has been stable as compared to previous year.

Analytical approach:
Standalone. Also, since the company has provided corporate guarantees for its two wholly owned subsidiaries (i.e. Malwa Power Pvt Ltd and Dee Piping Systems Thailand), 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 specialises 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)	FY16 (A)	FY17 (A)
Total operating income	657.56	487.62
PBILDT	107.76	72.11
PAT	26.02	15.07
Overall gearing (times)	0.83	0.57
Interest coverage (times)	2.48	2.58

A: Audited;

Status of non-cooperation with previous CRA:

NA

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.

Analyst Contact:

Name: Mr. Gautam Bafna
Tel: 011-4533 3256
Mobile: 09891493443
Email: gautam.bafna@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	01-Apr-2014	11%	Nov-2022	39.36	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	324.00	CARE A-; Stable / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	176.00	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 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.	Term Loan-Long Term	LT	39.36	CARE A-; Stable	-	1)CARE A- (14-Oct-16) 2)CARE A- (13-Jul-16)	1)CARE BBB+ (09-Nov-15)	1)CARE BBB (03-Feb-15)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	324.00	CARE A-; Stable / CARE A2	-	1)CARE A- / CARE A2 (14-Oct-16) 2)CARE A- / CARE A2 (13-Jul-16)	1)CARE BBB+ / CARE A3+ (09-Nov-15)	1)CARE BBB / CARE A3 (03-Feb-15)
3.	Non-fund-based - ST-Letter of credit	ST	176.00	CARE A2	-	1)CARE A2 (14-Oct-16) 2)CARE A2 (13-Jul-16)	1)CARE A3+ (09-Nov-15)	1)CARE A3 (03-Feb-15)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE A- (14-Oct-16) 2)CARE A- (13-Jul-16)	1)CARE BBB+ (09-Nov-15)	1)CARE BBB (03-Feb-15)
5.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	190.00	CARE A-; Stable / CARE A2	-	1)CARE A- / CARE A2 (14-Oct-16) 2)CARE A- / CARE A2 (13-Jul-16)	1)CARE BBB+ / CARE A3+ (09-Nov-15)	1)CARE BBB / CARE A3 (03-Feb-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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